The Economist

JULY 25TH–31ST 2009

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A 14-page special report on the Arab world



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Print edition July 25th 2009

Waking from its sleep
A quiet revolution has begun in the Arab world; it will be complete only when the last failed dictatorship is voted out: leader



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Politics this week

Jul 23rd 2009
From The Economist print edition

Barack Obama used a prime-time news conference marking six months in office to make the case for his blueprint for health-care reform. Polls show Americans increasingly disapprove of the president's plans, and some Democratic congressmen are questioning the cost. In its latest estimate, the Congressional Budget Office said the health-care bill would add $239 billion to the federal deficit over ten years. See article

A panel looking at the best way to close **Guantánamo Bay** missed a reporting deadline and said it needed another six months. It did produce an interim report, suggesting that although most detainees could be tried in federal courts, some should be judged by military tribunals. The administration insists it is still on track to close the camp by January.

California's legislature prepared to vote on a deal crafted by Arnold Schwarzenegger, the governor, and party leaders in the Assembly and Senate that would close the state's $26.3 billion budget deficit. The agreement brings in deep spending cuts to social programmes, but no tax rises. See article

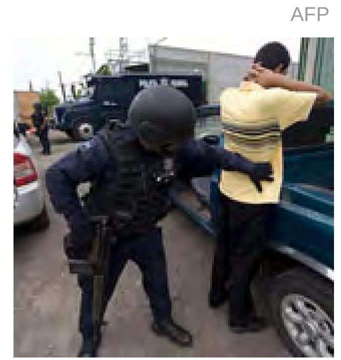
Voters in **Oakland** approved a measure, by 80% to 20%, that sharply increases the tax imposed on the receipts of the city's "cannabis business". The measure is expected to reap $300,000 in revenue next year.

Friends and enemies

Talks to try to resolve the conflict in **Honduras** between Manuel Zelaya, the recently ousted president, and the de facto government made little progress. The European Union said that it was suspending aid. The de facto government ordered Venezuelan diplomats to leave Honduras. In Washington conservative Republicans delayed the nomination of Arturo Valenzuela as the State Department's top diplomat for Latin America because of his condemnation of last month's coup. See article

Mexico's government sent 5,500 troops and police to the western state of Michoacán after 16 federal police agents were murdered, apparently by members of La Familia, a drug-trafficking gang. See article

AFP



Alberto Fujimori, **Peru's** president from 1990 to 2000, was convicted by a court in Lima of illegally paying off his former intelligence chief with $15m in public money. Mr Fujimori is already serving a 25-year sentence for authorising a paramilitary death squad.

A video was leaked by **Colombia's** police in which a leader of the FARC guerrillas spoke last year of payments to the campaign of Rafael Correa, **Ecuador's** president. Mr Correa dismissed the video as a "fabrication". See article

Georgia on my mind

The American vice-president, Joe Biden, visited **Ukraine** and **Georgia**, reassuring both countries that America would support them even as it sought better relations with Russia. Ahead of the visit, Georgia's president, Mikheil Saakashvili, promised a string of democratic reforms, partly in response to opposition complaints about his excessive power.

A second so-called Ergenekon trial of 56 senior Turks, including two former generals, began in Istanbul. The defendants are accused of seeking to engineer a military coup against **Turkey's** government.

Two Bosnian Serb commanders were found guilty of committing war crimes in **Bosnia** by The Hague war-crimes tribunal. Among other offences, Milan and Sredoje Lukic, who are cousins, burned alive Muslim women and children during the Bosnian war in 1992-95.

The European Commission made a concession by approving a large state-aid programme for **Poland's** shipyard in Gdansk. The shipyard was the birthplace of the anti-communist trade union, Solidarity, in the 1980s.

Mapping peace

An international court of arbitration at The Hague proposed new boundaries between north and south **Sudan** that would give the main oilfields in the disputed Abyei region to the north. Leaders from both sides have promised to abide by the ruling, in the hope of a final end to a long-simmering conflict.

Some 223,000 people have fled **Somalia's** beleaguered capital, Mogadishu, since early May, when jihadist rebels attacked government forces there, according to the UN's High Commission for Refugees. The Dadaab refugee camp in north-east Kenya, designed to host 90,000 people, now has 286,000 inhabitants.

Reuters



A year after taking power in a military coup, Muhammad Ould Abdelaziz was elected as **Mauritania's** civilian president in a multi-candidate poll. Various governments and international bodies, led by the African Union, which at first denounced his original takeover, seemed likely to welcome the country back as a proper democracy. See article

Factories across **South Africa** closed as tens of thousands of workers in the chemical and other industries called for pay rises of up to 15%. Hundreds of thousands of public-sector workers, including doctors and teachers, also threatened to stop work for more pay. See article

Arms dealers

India and **America** signed a defence agreement that will allow the sale of sophisticated American military equipment to India. A separate pact would increase American involvement in India's space programme.

The chief suspect in last year's **Mumbai bombings**, Muhammad Ajmal Qasab, a Pakistani citizen, reversed an earlier plea, confessed his involvement in the atrocity, pleaded guilty in court and said he was ready to be hanged. He faces 86 charges including murder and waging war on India.

Jemaah Islamiah, an extremist group with branches across South-East Asia, was blamed for two suicide-bombings in luxury hotels in **Indonesia's** capital, Jakarta, that killed nine people. See article

In the week of the 20th anniversary of Aung San Suu Kyi's first house arrest by **Myanmar's** military authorities, Hillary Clinton, America's secretary of state, said that growing military co-operation between Myanmar and North Korea was a threat to the stability of South-East Asia. See article

England's cricketers beat **Australia** in a Test match at Lord's in London, "the home of cricket", for the first time since 1934 and only the second time since 1896. England lead one-nil (the first Test was drawn) in a five-match series, with three to play. See article

Getty Images

Business this week

Jul 23rd 2009
From The Economist print edition

After a 15-hour board meeting **Porsche** removed its chief executive, Wendelin Wiedeking, and accepted that the state of Qatar should take a stake in the company. The actions smooth the way for a merger with Volkswagen and peace between the warring Piëch and Porsche families. The carmakers became embroiled in a row about the best way to combine after Mr Wiedeking ran up Porsche's debt in an abortive attempt to buy VW. See article

Ben Bernanke, the chairman of America's Federal Reserve, assured Congress that the central bank has an "exit strategy" from its policy of monetary easing. Some politicians think the Fed's interventions during the financial crisis may be a spur to inflation. Mr Bernanke said that "to some extent" recent policy measures would "unwind automatically" as the economy improved, but he gave notice that he intended to keep interest rates extremely low for an "extended period" as the recovery would be a "very long haul". See article

A Bloomberg poll found that 75% of global investors held a favourable view of Mr Bernanke's handling of the **financial crisis**. The heads of the European Central Bank, the Bank of England and the People's Bank of China had ratings of 54%, 50% and 42%. Timothy Geithner, America's treasury secretary, got a 57% rating worldwide, although 52% of American respondents viewed him unfavourably.

If they win…

Britain's opposition Conservative Party made public its plans to shake up the regulation of the country's financial system, which include scrapping the **Financial Services Authority**, the City regulator, and handing most of its powers to the Bank of England. See article

More banks published their quarterly earnings. **Morgan Stanley** reported a worse-than-expected $159m loss from continuing operations. It incurred a charge from last month's repayment of the bail-out money it got from the government, but it also set aside 72% of its revenue for employee compensation, a much higher percentage than that of its rivals.

Bank of America reported a $3.2 billion profit, based mostly on one-time gains, such as selling part of its stake in China Construction Bank. **Citigroup** made a profit of $4.3 billion, but it was saved from spilling more red ink only by the spin-off of its Smith Barney unit. Investors responded negatively to the news from both. **Wells Fargo** posted hefty earnings, but also revealed a sharp rise in bad loans.

Swedish banks exposed to eastern Europe's sicker economies had a bad quarter. **SEB** made a small loss after writing off investments in Russia, Estonia, Lithuania and Latvia (where the IMF forecasts GDP to shrink by 12% this year). **Swedbank** reported a big loss, and is to cut its staff in Russia and Ukraine and reassess its Baltic operations. The banks' rivals with little or no exposure to the Baltics, **Nordea** and **Svenska Handelsbanken**, reported healthy earnings.

CIT received a $3 billion cash injection from bondholders to help it pay $1 billion in debt that matures next month and avoid filing for bankruptcy. But some questioned the value to CIT of the rescue package. The troubled financial group, an important lender to small American businesses, will pay interest at an annual rate of 13% to some investors. See article

Climbing hedges

A survey by Hedge Fund Research, a research firm based in Chicago, found that **hedge-fund assets** had risen by $100 billion in the second quarter of 2009, the first quarterly increase in a year. The rise was mostly because of an improvement in investment performance rather than an injection of new capital. Investors withdrew $43 billion from the industry

in the quarter; in the final quarter of 2008 they redeemed $152 billion.



The effect of the global recession on the airline industry was evident in the earnings of big carriers. **Continental Airlines** and **United Airlines** followed **American Airlines** by chalking up steep losses. **Southwest Airlines'** profit was sharply reduced from a year ago. **British Airways** launched a £300m ($490m) convertible debt issue, its first since 1989, to bolster its cash.

Quarterly results from e-commerce companies produced no big surprises. The pace of **Google's** revenue growth slowed again; the slowdown in internet advertising also hurt **Yahoo!**, which saw sales fall by 13% from a year earlier; and **eBay's** core online shopping business continued to suffer, but this was offset by growth at its PayPal and Skype units. **Apple** shifted more of its products than expected and divulged that it couldn't keep up with demand for its iPhone.

One giant step

Amazon took a further stride towards building up its apparel business when it paid $847m for Zappos.com, a footwear retailer. It is Amazon's biggest ever acquisition.

KAL's cartoon

Jul 23rd 2009
From The Economist print edition

Illustration by KAL

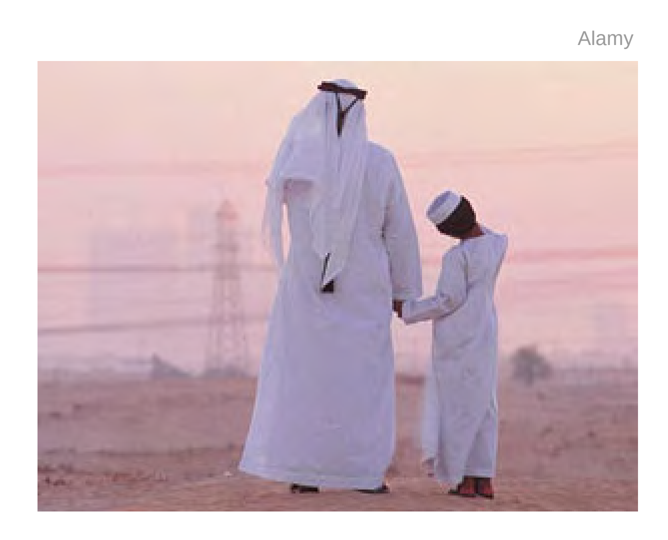


Waking from its sleep

Jul 23rd 2009
From The Economist print edition

A quiet revolution has begun in the Arab world; it will be complete only when the last failed dictatorship is voted out

Alamy



WHAT ails the Arabs? The United Nations Development Programme (UNDP) this week published the fifth in a series of hard-hitting reports on the state of the Arab world. It makes depressing reading. The Arabs are a dynamic and inventive people whose long and proud history includes fabulous contributions to art, culture, science and, of course, religion. The score of modern Arab states, on the other hand, have been impressive mainly for their consistent record of failure.

They have, for a start, failed to make their people free: six Arab countries have an outright ban on political parties and the rest restrict them slyly. They have failed to make their people rich: despite their oil, the UN reports that about two out of five people in the Arab world live on $2 or less a day. They have failed to keep their people safe: the report argues that overpowerful internal security forces often turn the Arab state into a menace to its own people. And they are about to fail their young people. The UNDP reckons the Arab world must create 50m new jobs by 2020 to accommodate a growing, youthful workforce—virtually impossible on present trends.

Arab governments are used to shrugging off criticism. They had to endure a lot of it when George Bush was president and America's neoconservatives blamed the rise of al-Qaeda on the lack of Arab democracy. Long practice has made Arab rulers expert at explaining their failings away. They point to their culture and say it is unsuited to Western forms of democracy. Or they point to their history, and say that in modern times they would have done much better had they not had to deal with the intrusions of imperialists, Zionists and cold warriors.

Some of this is undeniable. A case can indeed be made that Islam complicates democracy. And, yes, oil, Israel and the rivalry between America and the Soviet Union meant that the Arab world was not left to find its own way after the colonial period ended. More recently the Arabs have been buffeted by the invasion of Iraq. Now they find themselves caught in the middle as America and Iran jostle for regional dominance.

Strangely, your highness, they like voting

Still, as the decades roll by the excuses wear thin. Islam has not prevented democracy from taking root

in the Muslim countries of Asia. Even after its recent flawed election, Iran, a supposed theocracy, shows greater democratic vitality than most Arab countries. As for outside intrusion, some of the more robust Arab elections of recent years have been held by Palestinians, under Israeli occupation, and by Iraqis after America's invasion. When they are given a chance to take part in genuine elections—as, lately, the Lebanese were—Arabs have no difficulty understanding what is at stake and they turn out to vote in large numbers. By and large it is their own leaders who have chosen to prevent, rig or disregard elections, for fear that if Arabs had a say most would vote to throw the rascals out.

For this reason, you can bet that if the regimes have their way, Arabs will not get the chance. Arab rulers hold on to power through a cynical combination of coercion, intimidation and co-option. From time to time they let hollow parties fight bogus elections, which then return them to power. Where genuine opposition exists it tends to be fatally split between Islamist movements on one hand and, on the other, secular parties that fear the Islamists more than they dislike the regimes themselves. Most of the small cosmetic reforms Arab leaders enacted when Mr Bush was pushing his "freedom agenda" on unwilling allies have since been rolled back. If anything, sad to say, the cause of democracy became tainted by association with a president most Arabs despised for invading Iraq.

The illusion of permanence

Can regimes that are failing their people so clearly really hold sway over some 350m people indefinitely? Hosni Mubarak has been Egypt's president for 28 years; Muammar Qaddafi has run Libya since 1969. When Hafez Assad died after three decades as president of Syria, power passed smoothly to his son Bashar. After the failure of Mr Bush's efforts to promote democracy, and the debacle in Iraq, Barack Obama has put "respect" rather than "freedom" at the centre of America's discourse with the Muslim world. That may be wise: since the advent of Mr Obama, America's standing has risen in Arab eyes, and Mr Bush's zeal for reforming other countries was counterproductive anyway. But this suggests that if the Arabs want democracy, they will have to grab it for themselves.

Some in the West are wary of Arab elections, fearing that Islamists would exploit the chance to seize power on the principle of "one man, one vote, one time". Yet Islamists seem to struggle to raise their support much above 20% of the electorate. Non-Arab Muslim countries like Turkey and Indonesia suggest that democracy is the best way to draw the poison of extremism. Repression only makes it more dangerous.

Democracy is more than just elections. It is about education, tolerance and building independent institutions such as a judiciary and a free press. The hard question is how much ordinary Arabs want all this. There have been precious few Tehran-style protests on the streets of Cairo. Most Arabs still seem unwilling to pay the price of change. Or perhaps, observing Iraq, they prefer stagnation to the chaos that change might bring. But regimes would be unwise to count on permanent passivity. As our special report in this issue argues, behind the political stagnation of the Arab world a great social upheaval is under way, with far-reaching consequences.

In almost every Arab country, fertility is in decline, more people, especially women, are becoming educated, and businessmen want a bigger say in economies dominated by the state. Above all, a revolution in satellite television has broken the spell of the state-run media and created a public that wants the rulers to explain and justify themselves as never before. On their own, none of these changes seems big enough to prompt a revolution. But taken together they are creating a great agitation under the surface. The old pattern of Arab government—corrupt, opaque and authoritarian—has failed on every level and does not deserve to survive. At some point it will almost certainly collapse. The great unknown is when.

Reversing Honduras's coup

Why and how to reinstate Zelaya

Jul 23rd 2009
From The Economist print edition

Restoring legitimacy in Central America will take pressure as well as persuasion

EPA



ALMOST a month after the army ousted Manuel Zelaya, the elected president of Honduras, the danger has grown that a conflict of powers in an otherwise insignificant Central American country may turn into a wider and more worrying regional confrontation. This week the attempt by Óscar Arias, the president of neighbouring Costa Rica, to mediate between Mr Zelaya and his de facto successor, Roberto Micheletti, limped on. Mr Zelaya unhelpfully called on his supporters to stage an "insurrection". Three weeks ago an abortive return by Mr Zelaya saw one person die when troops opened fire against demonstrators trying to storm the main airport. Mr Arias is surely right to warn of worse bloodshed unless a deal is reached. But as *The Economist* went to press, his "final" plan hung in the balance. Who is to blame for the menacing deadlock and what can be done to overcome it?

The view in conservative circles, especially in the United States, is that what happened was not a coup at all, but a constitutional succession. By sacking the head of the army for his refusal to help organise an illegal referendum on changing the constitution, this argument goes, Mr Zelaya himself violated that document. In ousting him the army scotched a power grab of the kind pioneered by Venezuela's Hugo Chávez, who also just happens to have become an unlikely ally of Mr Zelaya. His removal has the backing of the legislature and the Supreme Court and many Hondurans. Better to let deadlock drag on until a presidential election due in November, say Republicans, who are trying to block Barack Obama's nominee to handle relations with Latin America over this issue.

This argument is short-sighted and wrong. Mr Zelaya's many faults did not justify his early-morning arrest and summary deportation. Coups are bad whatever the political colour of their victims. That is a lesson Latin America learned the hard way. Any election held under Mr Micheletti will be seen by many as illegitimate. But it is similarly wrongheaded to seek to reverse the coup through violence, as Mr Zelaya, egged on by Mr Chávez, seems to wish. The evidence suggests that only about one Honduran in three supports Mr Zelaya.

Back the Arias plan with sanctions

That is why Mr Arias's mediation still offers the best way out. His proposal is sensible. Mr Zelaya would be restored to office, but with an all-party government and international supervision; the election might be brought forward by a month; Mr Zelaya would drop his plan for a constituent assembly; and an amnesty would cover both sides. While Mr Zelaya has seemed reluctant to accept some of these conditions, Mr Micheletti has been even more intransigent, saying he would "never" allow the president's

reinstatement.

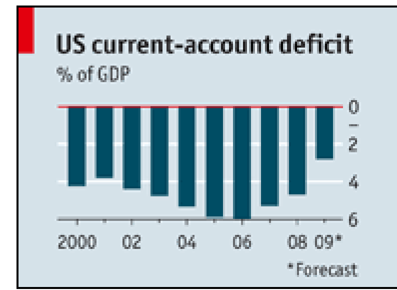
The United States is now best placed to secure an accord. If mediation fails, Mr Obama’s administration should cut aid and consider further sanctions against the de facto government. If there is a last-minute deal, it must press all sides to honour it. But Brazil and others could help too—by pushing Mr Zelaya to be patient, accept the Arias plan and distance himself from the likes of Mr Chávez and Cuba’s Raúl Castro, whose commitment to democracy ranges from dubious to non-existent. Mr Micheletti is right that democracy can be undermined by autocratic presidents. But this caveat should not cloud the central issue: a coup in a region which has shed authoritarianism should not be allowed to stand.

Rebalancing global growth

A long way to go

Jul 23rd 2009
From The Economist print edition

The global recession is coming to an end, but the ingredients of a lasting recovery are still missing



WITH luck, the global slump has reached its trough. Asia's economies are looking rosier, buoyed by a spectacular rebound in China, where output grew at an annualised rate of some 16% between April and June. Even in America and the euro area, GDP is likely to stop shrinking during the summer. Trade, having fallen precipitately, is levelling off (see article). And, as firms rebuild their stocks, global growth over the next few months could be surprisingly robust.

That is a welcome prospect. But it is not the all-clear. For this "recovery" has fragile foundations. The boost from restocking will be temporary. And a big source of demand—government stimulus—is unsustainable. Across the globe governments have, rightly, stepped in to counter the economic slump. In America an increase of 12 percentage points in the budget deficit has cushioned the slump in private spending. Around 75% of China's growth this year will be state-directed, either through public spending or officially induced lending.

Governments can prop up economies temporarily, but rising budget deficits are not a route to sustainable growth. Eventually burgeoning debt will limit the room for fiscal manoeuvre, and politicians may balk at renewed stimulus long before then. Worries about the budget deficit are already weighing on political debate in Washington (see article). A solid global recovery demands healthy and balanced growth in private demand. Unfortunately, that still seems far off.

Before the financial crash, global demand was horribly skewed. It was far too reliant on spending from increasingly indebted American consumers: witness the country's gaping current-account deficit, which reached almost 6% of GDP in 2006. The crisis—particularly the credit crunch and the destruction of more than $13 trillion of household wealth—has wrecked the American shopping machine and changed the nature of the world's imbalances. As consumer spending has slumped, the external imbalances have shrivelled. America's current-account deficit this year is likely to be less than 3% of GDP. On the other side of the ledger, China's surplus is on course to fall by half from its 2007 peak, of 11% of GDP, by 2010. The surpluses of both Germany and Japan are shrinking fast.

Laying out the to-do list

Rebalancing via recession is hardly to be recommended. Worse, even as imbalances between countries have unwound, those within them have worsened, as governments have stepped in. Chinese and German consumers are not spending more; the Chinese and German governments are. The task is to right these internal imbalances without recreating the external ones. The solution is well known: consumers in China and other emerging economies, and in thrifty rich countries like Germany, must become bigger engines of demand, while the former bubble economies, such as America, must continue the shift towards saving and exports.

How hard will this be? We will examine the task in a series of articles on the world's four biggest economies, beginning this week with America's (see article). The detailed to-do list differs from one country to the next, but three broad requirements stand out: a change of mindset for many policymakers; greater macroeconomic co-ordination than hitherto; and bolder microeconomic reforms.

The shift in mindset is most necessary in surplus economies. Too many German leaders seem to take the economy's export orientation as immutable. Few even grasp the need to nudge it towards domestic spending. China's authorities want to shift towards consumption, but are reluctant to pull the obvious

lever: allowing the yuan to strengthen faster.

Macroeconomic co-ordination will be necessary, especially to ensure that the fiscal tightening which must follow the stimulus does not strangle the recovery. While central bankers are laying out their exit strategies from monetary looseness in detail, few finance ministers have done anything similar on the fiscal side. In the big economies they claim they will cut their deficits substantially in 2011, but there are few details, even on the appropriate mix of tax reforms and spending cuts.

The hardest part, however, will be the microeconomic reforms required to smooth the macroeconomic adjustments. China's leaders need to boost household income (for instance by encouraging more labour-intensive growth and forcing state enterprises to pay fatter dividends) as well as improve health-care and pension provision so that people feel less need to save. Japan and Germany both have to encourage investment in services, by freeing markets from health care to education. America must counter the rigidities that have arisen after its asset bust. Millions of people with negative equity in their homes, for instance, cannot move to get a new job.

The to-do list is a long one, the risk of missteps is high, and it will take years to complete. That is why the world economy is not yet out of the woods.

Pakistan and the Taliban

Better news from the frontier

Jul 23rd 2009
From The Economist print edition

A modest success against the Taliban in Malakand; now the battle must be taken to more powerful militants



LONG reviled for their reluctance to fight the Islamist militancy that they themselves helped unleash, Pakistan's generals have a rare victory to boast of. In a three-month offensive against the Taliban in North-West Frontier Province (NWFP), the army has regained control of the lofty Malakand region, killing hundreds of militants. This has done less damage to civilian life and property than two previous, failed offensives in Malakand. The local Pushtuns, over 2m of whom were displaced by the fighting, are now returning home. They mostly support the army's efforts.

This success is not hard to fathom. The Taliban's takeover in Malakand caused an outcry not just in Washington, DC, but also in Pakistan's own media. Many blamed it on the army, which had made several truces with the militants in Malakand. Thus goaded, the top brass launched an unusually serious attack. Having previously failed to control Swat, the Taliban's regional base, with a division, the generals sent in three divisions. Rather than allowing the militants to withdraw in good order, this time they chased them into Malakand's hills.

There is much to celebrate in this, not least a hope that it will boost army morale. Over the course of a hapless six-year campaign in north-western Pakistan, the ideological aversion many Pakistani soldiers initially felt to killing their Muslim compatriots has often ceded to despair at their poor progress. Some 1,900 Pakistani troops have been killed and hundreds taken hostage, as the Taliban's influence spread. It is therefore crucial that the army's recent advances are not reversed. The generals seem to appreciate this. The troops are supposed to remain in Malakand for a year, while the local police force is retrained and enlarged. That is asking a lot of NWFP's government, which must also swiftly restore refugees to their homes and rebuild shattered infrastructure. But if it fails, grievances will fester that the Taliban might well exploit.

The tougher forms of Taliban

Having done well in Malakand, the army should now be expected to put up a stiffer fight elsewhere—starting with a more hostile quarter, the semi-autonomous tribal agency of South Waziristan. On public demand, it is plotting a renewed campaign against the Pakistani Taliban's supreme leader, Baitullah Mehsud, who has his fief there. This is overdue. Mr Mehsud is chiefly responsible for the suicide-blasts that have ripped through Pakistan's main cities in recent years, terrorising Pakistanis and banishing foreign investors. Eliminating him may be hard; with the backing of his bellicose tribe, in remote terrain, Mr Mehsud is a more formidable militant than those in Swat. Yet, for the first time, it seems likely to happen.

This is welcome. But it is too soon to speak of a watershed in Pakistan's faltering campaign against militancy. Success in South Waziristan, which Pakistan only notionally administers, would look much more modest than that in Malakand. To protect its supply-lines there, for example, the army may have to buy support from two other Taliban commanders. And having dealt with Mr Mehsud, in what would in effect be a joint operation with his Taliban rivals, the army may well intend to withdraw from South Waziristan. That would be wrong. If Pakistan is serious about defeating the Taliban, the tribal areas must be somewhat tamed.

With rough control over the tribal areas, the army could do a better job of quelling jihadist raids into Afghanistan. Several Pakistani militant leaders dedicate their forces chiefly to such jaunts—including the pair the army is allegedly courting in Waziristan. The army has not made much effort to stop them. The

ostensible excuse—that it is unable to do so—looks less tenable now it has some military successes against the Taliban. But there remains a suspicion that some generals want Afghanistan's government to fail. Recent moaning that the American-led surge in Afghanistan may drive militants over the border suggests that at best many are loth to help their neighbour.

How shortsighted. If, as Pakistan's commanders also like to complain, their Taliban insurgency is largely a consequence of the *jihad* next-door, it is in their interest to try harder to help NATO and the Afghan government to end it. That would really be a watershed.

Central banks and regulation

Rulers of last resort

Jul 23rd 2009
From The Economist print edition

For good and bad reasons, central banks are being set up to fail

AP



MOST political constitutions try to disperse power. In financial regulation the fashion is to concentrate it. America's Federal Reserve is accumulating huge control over the economy and banks. Similarly, Britain's Conservative Party, likely to form the next government, wants the Bank of England to be in charge not just of interest rates, but also the two big tasks of regulation: guarding the overall system's stability ("macro-prudential regulation", as it is known) and the "micro" supervision of individual firms (see article). Does that make sense?

It is not hard to see why the central banks are being given more clout. Regulatory credibility is scarce and the central bankers often have more of it than other financial policemen. In times of disaster the mess ends up with them: the boundary between, say, the Bank of England lending to HBOS and testing its solvency, supposedly the job of the Financial Services Authority (FSA), became academic when the system seemed hours from blowing up. Above all, central bankers now know that they ignore macro financial stability at their peril.

For years most central banks concentrated on using a single tool, interest rates, to achieve a single goal, price stability. They ignored or failed to spot huge asset bubbles and banks' kamikaze behaviour. Now, it is clear central bankers should consider not just the economy but the state of the financial plumbing behind it. By using tools like bank-capital rules and credit controls, they can try to prevent excesses building up again.

If they are to be responsible for stability, the central banks must have the power to act. That means the authority to swoop on individual firms that pose a threat to the system or are failing. As Mervyn King, the governor of the Bank of England, puts it, it would be hopeless "if we can do no more than issue sermons". So it makes sense for the central banks to be in charge of the macro-prudential bit. The harder question is the micro one: who should do day-to-day supervision of firms?

Being close to banks should allow regulators to get better information. But it also raises the risk that supervisors will be "captured" by bankers. This newspaper has argued that the Fed should cede responsibility for the micro management of American banks. In Britain, the situation is different. The existing supervisor, the FSA, has an impressive new boss in Adair Turner but in the past it has suffered something close to Stockholm syndrome, exempting Northern Rock from regular examination, and allowing Royal Bank of Scotland to buy ABN AMRO. And unlike America's finance, British banking is now concentrated in four big firms, blurring the distinction between general rules and regulation of individual companies. On balance, the Tories are probably right to return day-to-day supervision to the Bank of England.

Reap the reward: the hate of those you guard

That regulatory argument, however, is dwarfed by three worries. First, where the financial policemen sit matters less than hiring competent ones. Second, no matter how good those people are, central banks are bound to fail eventually: the banking system is huge and complex, and now enjoys a taxpayer guarantee that both encourages risky behaviour and is hard to withdraw. Thus, third, central banks will be on the hook more explicitly than ever before. When times are good they will struggle to take the punchbowl away: a central bank that tried to stop subprime lending in 2003 would have faced a political firestorm. When times are bad, they will be blamed.

That plainly raises the spectre of political intervention. But central banks need not be helpless. One priority should be to counter the impression that they are acquiring their new empires by accident. Their mandates need to be refined to include clear responsibility for both price and financial stability. One group of decision-makers should be responsible for both. Sometimes they will conflict, but having separate committees, as the Tories propose, does not resolve this.

And central banks should lead efforts to reform banking, so that it poses less risk to taxpayers. They can prod banks with taxpayer guarantees to shrink their risks and to build up capital buffers to absorb losses. It will be difficult, but unless the industry is reformed, the future will consist of banks that are too important to fail and central banks that are destined to do so.

On retirement, democracy, Sonia Sotomayor, America's economy, scientists, evolution

Jul 23rd 2009
From The Economist print edition

Young whippersnappers

SIR – Regarding your special report on ageing populations (June 27th), I once proposed a solution somewhat tongue in cheek to the problem of pensions: turn retirement upside down. In my plan, people would be supported by society up to the age of 30. During that period they would study, travel, prepare for a profession, reproduce and give full-time care to their young. They would not hold any positions of responsibility, where their youthful enthusiasm, unbounded energy and over-ambition were likely to cause problems. After 30, they would work until they dropped dead or became incapacitated.

The advantages are many. First, there would be more people working to support those young "retirees". Second, social-security budgets could be prepared years in advance, and with greater certainty. Third, young "retirees" would need very little health care and the money saved could be spent on their education and child care. Fourth, individuals would enjoy life at the peak of their powers and give full attention to offspring. Fifth, no more bored and sick elderly people looked upon as useless.

Cylon Gonçalves da Silva
São Paulo

SIR – You stated that 401(k) plans in America allow "employees to make tax-free payments into a defined-contribution plan". They do not. The "payments", or more precisely the salary-deferral contributions, are not tax-free but tax-deferred. All principal contributions, adjusted by investment experience, are taxed when withdrawn, hopefully at a lower tax rate. So the loss of large portions of 401 (k) accounts not only means less retirement income in the future for individuals, but also less future tax revenue for the government.

Now compare the 401(k) account with the Roth account, under which principal contributions are taxed currently in exchange for the tax-free receipt of net investment gains only. With Roth accounts, the federal government gets current rather than deferred income. It may not be long before the government "deleverages" away from the 401(k) concept and embraces the Roth concept more fully.

Carl Frammolino
Fellow of the Society of Actuaries
Austin, Texas

SIR – More than two-thirds of the world's older population live in developing countries. This matters, because over 100m old people live in poverty. Without adequate health or social security, poor countries will struggle to meet even their basic needs.

At the same time old people play a vital role in supporting families and communities. The migration of younger generations to urban areas has been helped by old people who stay behind to look after homes and children. By caring for the sick and the orphaned, old people are on the front-line in the battle against AIDS. Unless the international community addresses ageing, it will be unable to sustain this viable economic and social population in the future.

Mark Gorman
Director of strategic development
HelpAge International
London

SIR – Slow-growing and ageing populations may create a tax burden for workers who have to fund health care and pensions for the elderly, but a rapidly growing youthful population brings unbearable violent crime, environmental degradation, and more demand for prisons, schools, food and housing. This

is the demographic problem that Africa faces. Oh how I wish we had a falling, ageing population. Food aid to countries must not come at the expense of birth-control funding.

Benson Njonjo Ndehi
Nairobi

SIR – When I was born there were 3 billion people on the planet. There will be 9 billion by 2050. Dwindling resources, over-consumption and pollution are more important considerations than whether the baby-boomers will be able to support themselves in retirement. We boomers are going to do just fine, thank you very much. It is the generations to come that will have to cope with rising sea levels, national debt, choking air and diminished food and land resources.

Michael Sturdy
Armstrong, Canada

In people we trust

SIR – If ballot initiatives are "the crack cocaine of democracy" ("America's future", July 11th), then why is it that Switzerland is not a seething bankrupt hellhole? In fact, it is one of the most peaceful, prosperous and smoothly governed countries ever. Today's economic crisis has been likened to the Depression in many ways. One of the more disturbing parallels is the enthusiasm with which people of a certain disposition have rushed to use it as a pretext for reining in what they describe as "excessive" democracy.

Stephen Morris
Coorparoo, Australia

Support for Sonia

SIR – I was disappointed by your coverage of the Senate hearings confirming Sonia Sotomayor to the Supreme Court ("Empathy v law", July 18th). You did not need to adopt the viewpoint of conservative Republicans to the exclusion of almost everyone else. For example, the *Ricci* case, where white firefighters were denied promotion because not enough of their black colleagues scored high enough marks in a qualifying test, was heard by not only the city of Hartford, where the firemen are based, but by 13 federal judges. Eight of those voted to throw out the test results. The other five just happened to be a majority on the Supreme Court. You gave no hint that the firemen's test just might have been inappropriate to the task of promoting men with leadership skills.

And is there anyone who does not know that American law has always been influenced by the background and experiences of the judges who decide cases, and yes, thereby make policy? If so, that person must have spent his entire life in Russia. One has only to examine the development of tort law to see that, even over my lifetime as a lawyer, it has been changed by judges mightily from favouring defendants to tilting decisively towards plaintiffs.

Carter Howard
Winnetka, Illinois

SIR – Judge Sotomayor's observation that "a wise Latina woman with the richness of her experiences would… reach a better conclusion than a white male" illustrates well the factors underpinning the design of the constitution. If a wise old man, a wise old woman and a wise Latina woman could reach the same conclusion, the Supreme Court would need just one judge.

Thomas Bliss
Sherman Oaks, California

America's economy

* SIR – Your article about the prospects for the American economy and employment ("On the turn?", July

11th) fell in line with other forecasters of the apocalypse such as the OECD and the World Bank, which predict a 3%-4% decline in real GDP for 2009 as a whole. America's economy shrank by 1.4% during the first quarter of 2009. If estimates by reputable forecasters prove to be correct, economic activity will not have declined by more than 1.7% during the first half of 2009. Given the anticipated slow recovery for the rest of the year, it is not unlikely that the "Great Recession" of 2009 will show a decline of a little more than 1% for the year; serious, but not worth the Obama label.

Note that the most severe recession after the second world war, in 1982, saw output decline by 1.9% with unemployment rates peaking at 10.5%.

Manfred Keil
Former chairman of the faculty of the school of economics and finance
Claremont McKenna College
Claremont, California

Scientists in charge

* SIR – Your profile of Steven Chu, America's energy secretary, noted that Winston Churchill said he wanted scientists "on tap, not on top" (Face value, July 4th). Historically, some scientists have made excellent administrators.

Sir Isaac Newton, as warden and then master of the Mint, reorganised and modernised not only the technical aspects of the recoinage of British money, the fight against counterfeiters and clippers and the development of Britain's gold standard, but also the legal, administrative and political aspects. This was all the more remarkable when one considers how asocial and suspicious he had long been and how painful he found criticism and conflict.

Gerald Levitis
Mahopac, New York

Scottish evolution

SIR – Your article on the wild Soay sheep of the island of Hirta misrepresented what is meant by "fit" ("Survival of the less fit", July 4th). "Fit" is defined with a specific ecological niche in mind. With the changing environment, evolutionary pressures are leading to changes that are more adapted to survival in this new context. So, what it means to be fit on this island has changed; the sheep have not become less fit.

Shawn Baker
Dakar, Senegal

SIR – If sheep are getting smaller, will we need to count more of them to fall asleep?

Bill Bachhuber
Portland, Oregon

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* Letter appears online only

Natalia Estemirova on Chechnya

War and peace through the bravest eyes

Jul 23rd 2009
From The Economist print edition

The testimony of a murdered human-rights campaigner

EPA



IT WAS the kind of scene she had described many times. On July 15th at 8.30am, as she left her flat in Grozny, Natalia Estemirova was forced into a white Lada. She shouted that she was being kidnapped, but those who heard were too scared to report it. By the time her colleagues had found out, she was dead, murdered by three bullets in her chest and a control shot in the head.

There was a mark from a man's hand on her shoulder, where she was grabbed, and a bruise on her face, where she had been hit. Her wrists bore the marks of bindings. Ramzan Kadyrov, the authoritarian Chechen president, considered her an enemy. And she died as one. She documented hundreds of similar cases in Chechnya, supplying witness statements and photographs, forcing prosecutors to investigate and the media to write about kidnappings, torture and killings, often conducted by people in official uniforms. Much of what the world knew about Chechnya came from her and her colleagues at Memorial, a heroic group which started by documenting Stalinist crimes but continued to trace their modern-day consequences, especially in the Caucasus.

Her murder made few headlines in Russia, which has long been deaf to her findings or deaths such as hers. Some 150 people turned up at her memorial service in Moscow. These days, in a city of 10m, that is quite a crowd. Five months earlier, to the day, she herself had attended a memorial rally for Stanislav Markelov, a human-rights lawyer who was gunned down in the centre of Moscow. A video camera captured her, a good-looking middle-aged woman in a black coat struggling with tears as she spoke about her friend: "It was so dangerous for him, a Muscovite, to come to ruined Grozny." It was much more dangerous for her; she lived there.

Mr Markelov and Anna Politkovskaya, a Russian journalist who was murdered three years ago, often stayed in Ms Estemirova's flat in a shell-pocked building without running water, cheered by her hospitality and the photographic wallpaper displaying a tropical beach. Between them they managed to bring one case of abuse by the Russian army to justice. It remains almost the only one. All of them are now dead.

Straight-backed in her neat, feminine clothes, Ms Estemirova looked like the history teacher she once was and probably would have remained, had it not been for Chechnya's two wars. She would have preferred a normal life; but when war burst upon her, she responded with the compassion and resolve which were once the hallmarks of the Russian intelligentsia. In the words of Anna Akhmatova's "Requiem",

> Not under foreign skies
> Nor under foreign wings protected—

I shared all this with my own people
There, where misfortune had abandoned us.

A year ago, Ms Estemirova gave an interview to a sociologist. She spoke for many hours about her life and fate in the small Caucasus republic that has shaped much of what has happened in Russia since the end of the Soviet Union. This document is a reflection of the best and the worst sides of Russia.

She was born in 1959 into a working family in the Urals and came to Chechnya when she was 19. Her father was Chechen, her mother Russian. Two things stuck in her memory from the period before 1991: lies and empty shelves. In the hierarchy of the Soviet empire, Chechnya was a backwater. Despite being an oil-producing republic, it was extremely poor. People travelled to Russia proper for sausages and seasonal odd jobs. The truth was in equally short supply. Everyone in the republic had memories of Stalin's deportation of the entire Chechen people in 1944. The official silence over these events only inflamed feelings.

"The protest [against the deportation] was particularly acute in my generation: those who were young and did not experience it themselves, but felt extreme pain for our relatives who survived it and those who died." Chechens felt little obligation to the Soviet state. "[They] tried to live autonomously…It was bad to steal from one's neighbour, but it was considered normal to steal from the state."

Yet separatist and even nationalist feelings were weak. Grozny, the capital of Chechnya, was a predominantly Russian city. The Chechen language and culture were suppressed. Ms Estemirova did not speak Chechen fluently. "My motherland was first and foremost the Soviet Union."

The collapse of the Soviet Union brought a revolution to Chechnya. Ms Estemirova had little sympathy with separatist self-rule and was quick to see through the nationalist rhetoric of General Jokhar Dudayev, who came to power in 1991. "I saw who supported Dudayev: people who earned money from seasonal work around the Soviet Union and lost out economically when the union collapsed… Many used the slogans of fighting for independence as a cover for personal gain."

She had few illusions about the Soviet regime, but she did not like the sight of a crowd vandalising a statue of Lenin in Grozny either. "When people started fighting with statues, I knew it would end in tears." Nationalism of any sort repelled her. Half-Russian and half-Chechen as she was, she was caught in the middle. "I often felt this attitude in Chechnya: 'Go back to your Russia' and in Russia, when I visited my mother, 'Get back to your Chechnya'."

Her attitude to independence, like that of most Chechens, changed in 1994 when the Kremlin decided to dislodge Mr Dudayev with tanks and bombs. "[These] actions had no justification and no sense…For me this was a personal tragedy. Now I felt the victim was my motherland."

For ordinary Chechens the first war was one of liberation, not separation. "Both the Chechens and the vast majority of the [ethnic] Russian population supported the rebel fighters." Among those fighters were Ramzan Kadyrov and Ms Estemirova's husband, who was later killed. When the war ended the next year, "it was a time of complete euphoria. Everyone was falling in love with each other." But joy was soon replaced by disappointment and desperation. Whatever money was earmarked for Chechnya by the Kremlin was stolen by Chechen and Russian officials before it got anywhere near the ordinary people.

Ms Estemirova and her two-year-old daughter lived in a half-ruined flat in Grozny. "I was afraid of starvation, terribly afraid. I had everything rationed: the girl had to have one egg, one carrot, perhaps some porridge, so she wouldn't starve." She continued to teach while also helping to expose Russia's "filtration" camps, which were supposed to separate civilians from rebels but, in fact, tortured them.

In her eyes, however, Russia's brutality did not absolve the Chechens' own government of plunging the country into lawlessness. "Chechnya was neither a part of Russia, nor a separate state. It was a hole …A new type of crime flourished: kidnappings. The idea came from the federal forces who traded both in live and dead bodies. It was they who removed the taboo from these types of crimes."

In Grozny's market

AP

She was in a bus when a Russian rocket exploded next to a maternity hospital. "I saw this huge cloud and I stood in a stupor." The second and third rockets hit a crowded market and a place near a mosque where

people collected water. A man was lying next to her. “We tried to lift him and I couldn’t understand why my arms were wet. It wasn’t raining. I saw that my hands were covered in blood. He was a young man, nothing to do with rebels. I didn’t know what to do, where to run…I got to my school and saw people laughing at me: I was swaying. Perhaps they thought I was drunk.”



Silenced

A few days later Ms Estemirova was in Moscow, publicly confronting military officials who claimed that the attack on the market was aimed only at rebels. It was October 1999 and Russia, under the premiership of Vladimir Putin, had begun a second, longer-lasting war against its own republic of Chechnya. The aerial attacks were soon followed by “mopping up” operations, often accompanied by killings, rape and the burning of houses.

Ms Estemirova joined Memorial and went back to Chechnya, which by then was closed to journalists and outsiders. “I remember going to the village of Aldi on March 20th 2000. It was dead. We counted 47 victims, but of course there were more …A woman was hanging up bloodstained clothes left from her husband, who had been executed…People were in shock and would talk only in whispers…I remember walking over the bridge together with Aldi’s villagers and a boy walking in front of us. And some sniper, bastard, started shooting.”

In April 2004 she managed to get to the mountain hamlet of Rigakhoi, which had been hit by Russian bombs. “They bombed it knowing it was a family house, that children’s nappies were drying on the line, that sheep were wandering about. Inside there was a woman with five children. When they started bombing, she gathered them all around, because that is how they were found—she must have tried to cover them with her arms.”

When Ms Estemirova arrived the relatives dug up the children’s bodies so she could photograph them as evidence, since prosecutors refused to see them. When Ms Estemirova’s colleagues walked into her flat last week they saw this photograph: five small bodies lying in a row, from five years down to nine months.

When she photographed those bodies, her own daughter was ten years old. “It hurts that I could never love my daughter freely: I am always scared for her, even now. It is bad, because she has now grown. The fact that I became a human-rights defender was also the result of my maternal feeling: I just felt so sorry for these people who went through filtration camps. I was so outraged that this happened.”

The outrage did not blind her judgment. She was equally angry with “those who speculated with these ideas of independence. They have used their people as a shield. In fact they betrayed the people.” The real heroes of this war, she said, were the women who assumed the burden of saving the nation, who pulled their men out of dungeons and who gave milk and bread to the Russian soldiers who did not try to rape and kill them.

The end of the war did not reduce her workload. “The regime imposed in Chechnya is authoritarian, criminal and very corrupt.” The republic, which had suffered so acutely under Stalin, had developed its own form of Stalinism under Mr Kadyrov, who was installed by Mr Putin. His cult of personality is sustained by fear and brute force. Before Ms Estemirova died, she was investigating abuses by Chechen security agencies under Mr Kadyrov’s de facto control. He denies any part in her murder.

Grozny no longer looks like Stalingrad. It has been rebuilt and spruced up. But “the economic gains were in inverse proportion to the moral ones”. The effects of war run deep both in Chechnya and in Russia. “There is more hypocrisy and cowardice. The people who carried the best qualities of their nation have been killed, they are no more.” After her killing, Memorial suspended its operations in Chechnya.

The deficit and health care

Falls the shadow

Jul 23rd 2009 | WASHINGTON, DC
From The Economist print edition

The enormous deficit is complicating the president's ambitious plans

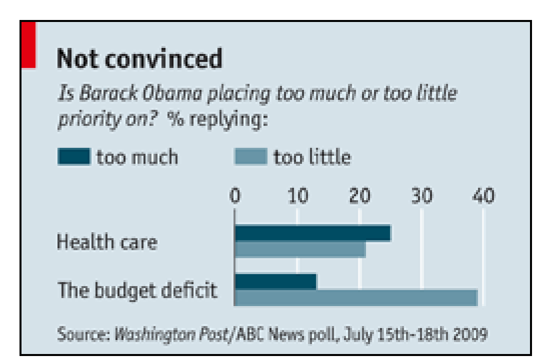
Illustration by Claudio Munoz



IT WAS a rare victory for fiscal rectitude. On July 21st the Senate stripped the funding for seven more F-22 fighter jets from a big spending bill, bowing to Barack Obama's threat to veto the aircraft.

But it was overshadowed by the much bigger setback Mr Obama had suffered a few days earlier. Three committees in the House of Representatives had presented a plan to provide health cover for the uninsured with the help of hefty tax increases on the rich. On July 16th Douglas Elmendorf, Congress's chief budget scorekeeper, stunned Washington when he said the bill would not only fail to tame health-care costs, but would permanently shift them higher. It would add $239 billion to the deficit in the next decade and far more thereafter. The next day conservative Democrats joined Republicans on two committees in voting against the bill, though it still passed.

That Mr Elmendorf's comments made such an impact signifies the growing political potency of the deficit. By a big margin, Americans think Mr Obama is paying too little attention to it, according to one recent poll (see chart). The proportion who consider it the most important issue facing the country has risen from 12% last December to 24% in June, according to another poll by the *Wall Street Journal* and NBC News. That is unusually rapid, says William Galston, a scholar at the Brookings Institution: "That's now part of the political reality Obama has to reckon with."



Many presidents have seen their ambitions frustrated by the realities of red ink. Ronald Reagan cut taxes shortly after taking office, but soon had to reverse course

and raise them. George Bush senior promised "no new taxes" and then had to break the pledge, scarring his party for years. Bill Clinton campaigned for a middle-class tax cut, but abandoned the idea shortly after he was elected. The second George Bush managed to escape this fate because he inherited a surplus. But by the time he left office, his profligate combination of serial tax cuts and unrestrained spending guaranteed the deficit would again loom over his successor.

The severity of the recession spared Mr Obama, at first, from confronting the deficit. Indeed, with the economy spiralling downward and the Federal Reserve's monetary ammunition all but spent, he rightly chose to boost the deficit in the short term through hefty fiscal stimulus.

But the recession has inflicted horrific damage on the government's accounts. Mr Elmendorf's Congressional Budget Office (CBO) predicts the deficit will be $1.8 trillion this year. This is bearable given the scale of the recession; the real problem is that it will decline only to $1.2 trillion by 2019, still a horrendous 5.5% of GDP. On July 21st Ben Bernanke, the Fed chairman, suggested that a deficit of no more than 3% was sustainable—a figure that would arrest the growth in debt as a share of GDP.

Most of the red ink results from the enormous hole the recession has punched in GDP and consequently in tax revenue, the cost of bailing out the financial system, and interest on the mounting debt. Only a small part of it comes from America's big and growing entitlements, Medicare and Medicaid (health care for the elderly and poor, respectively) and Social Security (public pensions), whose worst fiscal problems lie beyond 2019. "Unless we demonstrate a strong commitment to fiscal sustainability," Mr Bernanke remarked, "we risk having neither financial stability nor durable economic growth."

Mr Obama knows all this: he promises repeatedly not to leave the problem to his successors. Yet he has done little to back up the rhetoric. His willingness to veto more F-22 spending is admirable, but the $1.75 billion at stake is immaterial. He will release an updated budget outlook in mid-August, but it is unlikely to contain any notable new initiatives. There is still no sign of a path towards fiscal tightening over the medium term as the economy recovers. Quite the opposite; Mr Obama has not wavered from his position that taxes on those earning less than $250,000 will not go up. In fact, they've been temporarily cut. He did say in an interview this week that he might set up a commission that could look at ways of reducing entitlements spending once the recession is over.

The president has promised that health-care reform will be deficit-neutral, but this is a slippery concept. A plan may be deficit-neutral over ten years, but add significantly to it thereafter by front-loading revenue and backloading costs. The CBO figures show that this is a big problem with the House plan, whose shortfall will balloon beyond the ten-year horizon.

Jim Cooper, one of the Democrats' most fiscally hawkish congressmen, fears that if push comes to shove, his party will not long remain stalwart on deficit-neutrality. "Health care has been such an impossible dream for so many decades that a lot of today's Congress would overlook the deficit problems. I hear it all the time from colleagues in leadership: 'We always find enough money for defence. We'll find enough for health care'." Mr Galston, though, thinks that the public's worries about the deficit will reinforce Mr Obama's commitment that health reform should not boost the deficit over the medium or long term. This could mean that he ends up with a plan that covers fewer of the uninsured than many had hoped.

None of this deals with the still-gaping hole in the budget. Indeed, a truly deficit-neutral health-care plan may make it tougher to fill that hole: if the rich are already being taxed more to pay for health reform, that makes it harder to use them to address the wider deficit. There are other ways to reduce the deficit, including getting rid of the mortgage-interest deduction, raising the age of eligibility for Medicare and Social Security, altering the inflation-indexation formula, or proposing some sort of tax reform that raises additional revenue. These ideas need not be implemented immediately; that would contradict the purposes of stimulus. But the knowledge that they are in the works would help reassure the public and investors that the federal debt—forecast on current policies to explode from a net $5.8 trillion last year to a net $11.7 trillion in 2019—may be tamed.



Saving the Republicans

The Young Guns go for it

Jul 23rd 2009 | WASHINGTON, DC
From The Economist print edition

Two possible candidates to lead the party out of the wilderness

AP

POLITICIANS capable of renewing the unpopular and demoralised Republican Party are hard to find in the Senate, where they cannot even mount a filibuster these days. Neither do state governors promise much: scandal, resignation and botched appearances on the national stage have hurt the ambitions of South Carolina's Mark Sanford, Alaska's Sarah Palin and Louisiana's Bobby Jindal respectively.

So conservatives seeking saviours are increasingly alighting upon the House of Representatives, and especially the youthful duo of Eric Cantor, the Republican whip, and Paul Ryan (pictured above), the party's senior member on the budget committee. Both represent swing states: Mr Cantor, 46, is from Virginia, Mr Ryan, 39, from Wisconsin. Both leapfrogged older stalwarts to get their current posts (Mr Cantor is the most senior House Republican after the minority leader, John Boehner, who is 59). Along with Kevin McCarthy, a representative from California, they run the Young Guns, a team of House Republicans devoted to helping favoured candidates get elected.

Neither man is widely mooted as a presidential candidate, at least not yet. Conservative pundits initially regarded Mr Cantor, a prodigious fund-raiser and peripatetic campaigner reportedly considered as a running-mate by John McCain last year, as the obvious leader. Mr Ryan, a prolific source of policy ideas, was considered the thinker. More recently, however, Mr Ryan has come to be seen by many as the more natural front-man.

But whatever the division of labour, it is not hard to see the two men's usefulness to their party. Their determination to produce alternatives rather than mere opposition to Democratic policies should help to prevent the Republicans from being typecast as the party of "no". And they are generally more mindful of the tone they strike than older, grouchier Republicans. Mr Ryan's political hero is the late Jack Kemp, the soul of sunny conservatism.

Both are also conversant with life outside the conservative bubble. Mr Cantor, the only Jewish Republican congressman, has a wife who hails from a prominent Democratic family ("a mixed marriage", he calls it). Mr Ryan is one of the few senior House Republicans to represent a competitive district in a swing state. His district, won by Barack Obama in the presidential election, contains lots of union members.

But if a Republican recovery requires a centrewards shift in some of the party's economic thinking, the two men seem less plausible agents of change. For if their dynamism is evocative of Newt Gingrich's mid-term revolution of 1994, so too is their zeal for small government. True, a "road map for America's future", published by Mr Ryan last year, included ideas for broadening health-care coverage. But it focused on steep cuts to taxes and entitlements. Budding congressmen seeking the support of the Young Guns must demonstrate a commitment to shrinking the state.

All this is more coherent than the big-government conservatism of the Bush years. Mr Ryan understandably defines himself against the profligate House Republicans of that era. But whether this is enough to win back floating voters is unclear—despite gathering worries about the deficit under Mr Obama. Both men have devoured the recent slew of books attempting to sketch a path back to power for the Republicans. But their authors, including David Frum, Ross Douthat and Reihan Salam, agree that the party needs to become more open-minded about government intervention if it is to address popular worries, such as the environment and the stagnation of middle-class incomes.

Democrats are frustrated that Mr Ryan in particular is being defined more by his amiable personality than his conservative take on economics. That may not last as he comes under more scrutiny. There are also obstacles to Mr Cantor and Mr Ryan from within. Some older Republicans are resentful of their rapid rise and their hostility to Washington orthodoxy, including the pork-barrel culture. But if the party is serious about leaving the wilderness, it cannot be choosy about who leads them out.



California's tax system

Smoothly does it

Jul 23rd 2009 | LOS ANGELES
From The Economist print edition

As California wrestles with its budget, one group thinks deeply about its taxes

AGAINST the clock, as usual, California's leaders on July 20th hammered out a budget agreement. This just about plugs the fiscal gap which has forced the state, in recent weeks, to issue IOUs in lieu of cash and has wrecked its credit rating. The deal contains no new taxes (Republicans successfully blocked any such attempt), but imposes painful cuts to education, welfare and virtually every other part of state spending. The legislature was due to vote on it as *The Economist* went to press.

What is to blame for California's recurring, humiliating budget crises? The state's Byzantine tax system, says Gerald Parsky, a private-equity investor. Mr Parsky is also the chairman of the bipartisan Commission on the 21st Century Economy, which was set up by the governor, Arnold Schwarzenegger, last year with a mandate to think bold thoughts about taxation.

The commission has two goals. The first is to end California's notorious revenue volatility. This is a result of the state's heavy reliance on personal income taxes and in particular on capital-gains taxes paid by the rich (see chart). In good years, such as during the dotcom boom, revenues soar and politicians happily spend. In bad years revenues plummet and the budget cracks open. The second goal, as the commission's name implies, is to modernise the tax system. The sales tax, for instance, applies only to goods, even though California has become a service economy.

By all appearances, however, the 14 members of the Parsky commission have got bogged down in politics. They were originally due to report on tax filing day, April 15th. Then the deadline moved to the end of this month. Now it appears to be September. Many Californians have already written off the effort as yet another futile ritual in a politically deadlocked state. "These commissions come and go and produce a fancy report," says Jon Coupal, the chief lobbyist for preserving California's infamous Proposition 13, the voter initiative that in 1978 cut and capped property taxes in the state. "Then it gathers dust, and nothing's ever done."

Unreliable revenues

California's:

capital gains tax revenue
% of general fund revenue

personal income tax revenue
% change on a year earlier

F'CAST

30, 20, 10, +, 0, –, 10, 20, 30

2000 01 02 03 04 05 06 07 08 09 10

Source: California Department of Finance

Utterly wrong, counters Mr Parsky. The commission needs more time, he says, because it has indeed achieved consensus on some things, with details still being discussed, and will propose to the legislature a package that eliminates or changes most of the existing taxes and creates an entirely new one. This is not about tax increases, he insists. Those might be impossible anyway, because the less known part of Proposition 13 was to require two-thirds majorities in both houses of the legislature to pass any tax increases, and the Republican minorities are large and partisan enough to block all such attempts.

A tax increase might also be inadvisable. California is already a high-tax state. The Tax Foundation in Washington, dc, ranks California sixth among the 50 states for the overall size of its tax burden. The non-partisan Public Policy Institute of California (PPIC) ranks it 18th after counting local fees and taxes. Three states without personal income taxes—Nevada, Texas and Washington—are among the top destinations for people leaving California, although the size of tax flight is sometimes exaggerated, according to the PPIC.

At first the Parsky commission leant towards a flat tax. That, however, raised hackles about shifting the burden to poorer people just as the state was cutting back on benefits in the teeth of a recession.

The latest plan would eliminate the state sales and corporate taxes entirely, and would make personal-income taxes so simple that a return would fit one page. Courageously, it might nibble at Proposition 13, by letting commercial property be taxed more. But the main innovation is a "business net receipts tax" on the difference between gross sales and purchases from other firms. Mr Parsky says that this will be similar to a value-added tax, but "does not exist in exactly this form anywhere in the world." California may be just the place to try it out.

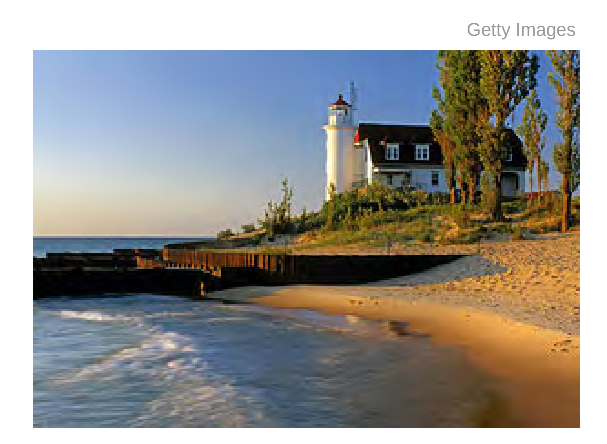
Tourism in Michigan

The triumph of optimism

Jul 23rd 2009 | TRAVERSE CITY
From The Economist print edition

Michigan hopes tourism will help the state rebound

Getty Images



DOWNTOWN Traverse City is filled with shops, restaurants and an unusually large number of ice-cream parlours. Boats glide on twinkling bays. A peninsula is blanketed with cherry trees and vineyards. This is not California, nor Cape Cod, but Michigan. And it is places such as Traverse City that locals hope will provide relief to a suffering state.

The news out of Michigan has been relentlessly gloomy. The one area in which Michigan leads the country has been its unemployment rate—15.2% in June, compared with a national average of 9.5%. But in recent months Michigan has tried to present a more cheerful message. A $10m tourism campaign, aired on national television from March to June, was the state's most ambitious yet. Though Michigan faces a $1.7 billion deficit, new bills propose to raise money for more promotion.

As Michigan's manufacturing economy—led by the carmakers in Detroit—has faltered, the state has turned to tourism as a possible source of growth. The budget for promoting it grew from less than $6m in 2005 to $30m this year, thanks largely to a one-off infusion of cash from a tobacco settlement. In 2006 the slogan, "Great Lakes Great Times", was replaced by a glossy new campaign for "Pure Michigan". Historically, 70% of tourists have come from within the state. This year's national ads were part of a bid to lure distant visitors with rather fatter wallets.

The advertisements showed lush golf courses, lighthouses, beaches and sunsets, while a narrator cast Michigan as an unspoilt refuge. Pristine spots such as Traverse City, where Michael Moore has launched a film festival, remain natural attractions. But more unlikely towns are hoping to lure tourists too. The state's advertising partnership extended to a record number of cities this year, including Flint, the grim setting for Mr Moore's documentary, "Roger & Me".

Whether all this will do much good remains to be seen. Numbers so far present a mixed picture. Each dollar spent on advertising in other states from 2004 to 2008 prompted more than $40 of spending at local businesses and $2.86 in new state tax collections, according to a study commissioned by Michigan's government. But Michigan cannot escape the gloom of its local market. In 2008 travel spending fell by 2% nationally but by 10% in Michigan. From January to May of this year, the occupancy rate of Michigan's hotels was more than ten percentage points lower than the national average, according to Smith Travel Research.

At the very least, the campaign, which has been widely praised for its lovely look, provided a small boost to the state's image. One ad made even Detroit seem lovely, with a narrator cooing: "It seems when we get to a place where no one knows us, we become most ourselves." Michigan may not have found itself quite yet, but it is doing its best.

Labelling menus

The truth shall make you thin

Jul 23rd 2009 | NEW YORK
From The Economist print edition

Restaurants across the country may have to post calorie-counts

Getty Images



How many?

ON JULY 1st California began enforcing a new menu-labelling law, which requires chain restaurants (ones with more than 20 branches) to post the calories in their fare on their menus. Three other states, Oregon, Maine and Massachusetts, have already passed similar regulations, as have 11 city and county governments. The trend has gathered strength quickly, mostly because of concern about the nation's expanding waistlines. New York City was the first place to enact a menu-labelling law; it went into effect in March 2008. The next step is to deploy the practice nationally. The requirement is duly included in Senator Edward Kennedy's version of the health-reform bill now being debated in Congress.

More than a third of American adults are obese, and they often struggle to estimate the number of calories they consume when eating out. In a study published in the *American Journal of Public Health* participants underestimated the calories in unhealthy foods at a restaurant by more than 600 calories, around a third of the maximum a woman is supposed to consume in a day.

Proponents of menu labelling hope that knowing what is in their food may direct people to healthier items. Los Angeles County's Public Health Department rather bravely projects that menu labelling could prevent nearly 40% of the annual weight gain there, for example.

The effect of menu labelling on dietary choices remains unclear, and the regulations are too new to produce much evidence. To some, however, the public-health benefits of the new legislation are irrelevant. "You have labels on your clothes to tell you what's in it and where it's made," says Kelly Brownell of Yale's Rudd Centre for Food Policy and Obesity, who believes that the consumer has a right to know the calorie-count of a restaurant meal.

Menu labelling may also encourage restaurants to provide healthier dishes. In response to New York's menu-labelling law, Cosi, a restaurant chain, created a new menu with healthier items and lowered the calorie content of some of its existing sandwiches. As a result, it says, people are switching to the lower-cal products. National chains like Starbucks, McDonald's, Denny's and Dunkin' Donuts have all introduced less calorific items since menu labelling went into effect in New York.

Changes in consumer taste, they say, not menu labelling, are the reason for these changes. But worries about having to print supersize calorie counts on their menus may have played some part. The proof is in the reduced-fat pudding.

New Jersey's race for governor

The target

Jul 23rd 2009 | HOLMDEL, NEW JERSEY
From The Economist print edition

Jon Corzine, the Democratic incumbent, looks vulnerable

Reuters



Corzine (right) and friend

MORE than 17,000 people turned up in the hot sun on July 16th to see Barack Obama speak at a campaign rally. It was his first visit to New Jersey since be became president. A DJ played "Glory Days" by Bruce Springsteen, New Jersey's famous son. Some of the waiting crowd began to dance when the sound system belted out a Michael Jackson tune. When Mr Obama appeared on stage the place erupted. And oh yes, Jon Corzine, who is hoping to be re-elected this November as governor, was there too.

Mr Corzine needs some of Mr Obama's popularity to rub off on him. Mr Obama won the state handily last November, but Mr Corzine is not so blessed. Not only is he 12 points behind Chris Christie, his Republican rival, but a recent poll revealed that only a third of New Jersey voters approve of the job he is doing. "Having the president gives you a bump," says Jennifer Duffy of the *Cook Political Report*, a non-partisan newsletter. "But that wanes after a few days." More worrying, only 13% say Mr Corzine can point to any major accomplishments in his first term. Mr Corzine, perhaps because of the need to be tight-lipped when he ran Goldman Sachs, is not a natural braggart.

He needs to become a bit more of one, because he has in fact had a fair few successes. He is the first governor for 60 years to reduce the size of government. He has changed education funding so that it is more evenly distributed. And last month his budget, crafted in tough economic circumstances, reduced spending while providing some property-tax relief.

Chris Christie is certainly taking advantage of Mr Corzine's reticence. He is a well-respected former federal prosecutor who gained a reputation for fighting corruption. He is a harsh critic of Mr Corzine's economic policies, which is going down well in a state with unemployment reaching a rate not seen since 1977 and the nation's heaviest tax burden. Mr Corzine, the Wall Street financier, was supposed to fix this, but hasn't been able to so far, though Mr Christie hasn't provided much of an alternative plan. It is only July and already the campaign is nasty and sure to get worse.

Mr Corzine's biggest obstacle is the perception that he is a distant technocrat who is unable to connect with ordinary voters. Yet his recent speeches, in particular his primary-victory speech and the one he gave at the rally, were passionate and crowd-pleasing. He still needs to do a better job at reaching out to the newly registered voters who voted for Mr Obama. The Republican Mr Christie sees the wisdom in this too and has, cunningly, released a web video courting New Jerseyans who voted for the president. Both candidates are taking a page from Mr Obama's campaign playbook by focusing on new media like Facebook and YouTube. Mr Christie announced his choice for lieutenant governor via Twitter. This is especially clever as the candidates are faced with two of the most expensive television markets, New York City and Philadelphia. Mr Christie is relying on public financing to fund his campaign, while Mr Corzine is mostly opening his own large wallet.

The race is gathering national attention. Only New Jersey and Virginia have governors' races this year. The Virginia race looks tight, but the Republicans would be able to trumpet a win in New Jersey, a famously blue state, as an early referendum on the Obama administration before next year's mid-term election, when 36 Senate seats and the whole House are up for grabs. There is an encouraging New Jersey precedent for them. Christine Todd Whitman's victory over Jim Florio in 1993 turned out to be the precursor to the 1994 Republican national sweep.



Music festivals

Brass in pocket

Jul 23rd 2009 | MANCHESTER, TENNESSEE
From The Economist print edition

Music is big business in small towns

Getty Images



A nice little earner

FOR most of the year, Manchester looks like any small Southern town. It nestles between Nashville and Chattanooga with a county courthouse flanked by war monuments, and a Wal-Mart on the outskirts of town. But for four days each June the town becomes Bonnaroo, recently named by *Rolling Stone* as the best music festival in America. This year, more than 75,000 people camped on hundreds of acres of pastureland and battled deep mud and intense heat to enjoy music ranging from the Beastie Boys to up-and-comers such as the American Princes. Tickets ranged from a mere $275 each to $1,450 for a pair of VIP passes.

For Manchester, the festival meant crowds, rubbish and heavy traffic: but also an infusion of cash into a local economy that normally gets very little money from tourism. Coffee County receives $3 for every ticket sold as well as another $30,000 upfront to host the festival. David Pennington, the county mayor, says Bonnaroo injected about $20m into his county this year. And the festival has given more than $1m to various good causes since it began in 2002.

Other rural places are catching on. The hippie-fest Wakarusa used to be held just outside Lawrence, Kansas, but the city tired of having thousands of people descend. So this year Wakarusa's organisers moved the festival to Mulberry Mountain in the Arkansas hills. The festival generated about $6m in revenue for the happy surrounding areas. Some critics say festivals contribute less than other forms of tourism, because most people camp and eat on-site, rather than using hotels and restaurants. But towns are not deterred from opening their doors to festivals or creating their own.

Oklahoma, for instance, has realised that festivals can be a big boon to a struggling state. Tulsa's Dfest started out in 2002 as a competition for local bands. Over the past seven years it has turned into a mega-event hosting big acts like the Flaming Lips and a crowd exceeding 50,000. Then there is Pryor, Oklahoma, which sits near the Kansas, Arkansas and Missouri state lines, about 30 miles from Tulsa. It has found a mammoth market with "Rocklahoma", a music festival in July aimed at metal-heads. Billed as the world's biggest 1980s music festival, it lures tourists from all over the world, and they often stay on after the festival to camp. A few weeks before "Rocklahoma" the town, normally home to just 8,500 people, hosts "Country Fever", another festival. These two gigs add up to the biggest annual sales-tax earner for the city, Christmas included.

Even some veterans are learning to cash in. The blues-soaked Delta town of Helena-West Helena, Arkansas, home to the former King Biscuit Blues Festival, is being forced by the recession to charge for admission for the first time this year. The 24-year-old event, held each October, usually draws around 80,000 blues-lovers: this year, attendance will presumably be down. Still, the price is low compared with other festivals: a bargain $10 for a day's music, or $25 for all three.

Lexington

The Obama cult

Jul 23rd 2009
From The Economist print edition

If Barack Obama disappoints his supporters, they will have only themselves to blame

Illustration by KAL



IN JANUARY 2007 Mike Huckabee, a former governor of Arkansas, said he was running for president to revive "our national soul". He was not alone in taking an expansive view of presidential responsibilities. With the exception of Ron Paul, all the serious candidates waxed grandiloquent about their aims. John McCain said he modelled himself on Teddy Roosevelt, a man who "nourished the soul of a great nation". Hillary Clinton lamented that America had no goals, and offered to supply some. And let us not forget the man they all sought to replace, George Bush, who promised, among other things, to "rid the world of evil". Appalled by such hubris, a libertarian scholar called Gene Healy wrote "The Cult of the Presidency", a book decrying the unrealistic expectations Americans have of their presidents. The book was written while Barack Obama's career was still on the launch pad, yet it describes with uncanny prescience the atmosphere that allowed him to soar.

Mr Obama has inspired more passionate devotion than any modern American politician. People scream and faint at his rallies. Some wear T-shirts proclaiming him "The One" and noting that "Jesus was a community organiser". An editor at *Newsweek* described him as "above the country, above the world; he's sort of God." He sets foreign hearts fluttering, too. A Pew poll published this week finds that 93% of Germans expect him to do the right thing in world affairs. Only 14% thought that about Mr Bush.

Perhaps Mr Obama inwardly cringes at the personality cult that surrounds him. But he has hardly discouraged it. As a campaigner, he promised to "change the world", to "transform this country" and even (in front of a church full of evangelicals) to "create a Kingdom right here on earth". As president, he keeps adding details to this ambitious wish-list. He vows to create millions of jobs, to cure cancer and to seek a world without nuclear weapons. On July 20th he promised something big (a complete overhaul of the health-care system), something improbable (to make America's college-graduation rate the highest in the world by 2020) and something no politician could plausibly accomplish (to make maths and science "cool again").

The Founding Fathers intended a more modest role for the president: to defend the country when attacked, to enforce the law, to uphold the constitution—and that was about it. But over time, the office has grown. In 1956 Clinton Rossiter, a political scientist, wrote that Americans wanted their president to make the country rich, to take the lead on domestic policy, to respond to floods, tornadoes and rail strikes, to act as the nation's moral spokesman and to lead the free world. The occupant of the Oval

Office had to be "a combination of scoutmaster, Delphic oracle, hero of the silver screen and father of the multitudes," he said.

The public mood has grown more cynical since then; Watergate showed that presidents can be villains. But Americans still want their commander-in-chief to take command. It is pointless for a modern president to plead that some things, such as the business cycle, are beyond his control. So several have sought dubious powers to meet the public's unreasonable expectations. Sometimes people notice, as when Mr Bush claimed limitless leeway to tap phones and detain suspected terrorists. But sometimes they don't. For example, Mr Bush was blamed for the debacle of Hurricane Katrina, although responding to natural disasters is largely a local responsibility. So he pushed Congress to pass a law allowing the president to use the army to restore order after a future natural disaster, an epidemic, or under "other condition[s]", a startling expansion of federal power.

Mr Obama promised to roll back Mr Bush's imperial presidency. But has he? Having slammed his predecessor for issuing "signing statements" dismissing parts of laws he had just signed, he is now doing the same thing. He vowed to close the prison at Guantánamo Bay, but this week put off for another six months any decision as to what to do with the inmates. Meanwhile, he has embraced Mrs Clinton's curious notion that the president should be "commander-in-chief of our economy", by propping up banks, firing executives, backing car warranties and so forth. Mr Healy reckons that Mr Obama is "as dedicated to enhancing federal power as any president in 50 years."

The perils of over-promising

Nonsense, say his supporters. Taking over banks and car companies was a temporary measure to tackle a crisis. When the danger recedes, Mr Obama will pull back. The restructuring of General Motors, for example, is comfortably ahead of schedule. And far from lording it over Congress, the president has if anything abdicated too much responsibility to it.

These are all fair points. But Mr Healy's warnings are still worth heeding. Mr Obama is clearly not the socialist of Republican demonology, but he is trying to extend federal control over two huge chunks of the economy—energy and health care—so fast that lawmakers do not have time to read the bills before voting on them. Perhaps he is hurrying to get the job done before his polls weaken any further. In six months, his approval rating has fallen from 63% to 56% while his disapproval rating has nearly doubled, from 20% to 39%. Independent voters are having second thoughts. And his policies are less popular than he is. Support for his health-care reforms has slipped from 57% to 49% since April.

All presidential candidates promise more than they can possibly deliver. This sets them up for failure. But because the Obama cult has stoked expectations among its devotees to such unprecedented heights, he is especially likely to disappoint. Mr Healy predicts that he will end up as a failed president, and "possibly the least popular of the modern era". It is up to Mr Obama to prove him wrong.

Economist.com/blogs/lexington

Mexico's drug gangs

Taking on the unholy family

Jul 23rd 2009 | MORELIA
From The Economist print edition

The government has deployed thousands of troops against a sinister new mafia. But severing its many tentacles requires a much more agile state

AP



IN SEPTEMBER 2006 La Familia ("The Family") introduced itself as the latest force in organised crime in Mexico by tossing five severed heads onto a nightclub dance floor in Uruapan, a town in the western state of Michoacán. Beside them a card read: "La Familia doesn't kill for money, kill women or kill innocents. Only those who deserve to die will die. Let everyone know that this is divine justice." This has since been meted out to rapists, adulterers of wine and the like. La Familia's battles with rivals saw a bomb thrown at a crowd celebrating independence day in Morelia, the state capital, last September, killing eight people. Its latest target is the federal police. In four days following the arrest on July 11th of Arnoldo Rueda, a senior gang operative, the outfit strafed police stations and killed 16 agents. This was the largest single assault on the federal government since Felipe Calderón declared war on drug gangs upon taking office as Mexico's president in December 2006.

While rival mobs focus on smuggling and selling drugs, La Familia has quickly turned itself into a much more ambitious and sinister organisation which acts as a parallel state in much of Michoacán. It extorts "taxes" from businesses, pays for community projects, controls petty crime and settles local disputes.

Mr Calderón dismissed the latest attacks as a "desperate" response to government pressure. He may be right: someone claiming to be from La Familia called a television station to propose a truce with the government. The president's answer was to send 5,500 troops and police to the state. They arrived on July 20th. Helicopters circled over the 18th-century cathedral in Morelia. Convoys of soldiers wielding machine guns roamed its colonial streets, where some two-thirds of hotel bookings were cancelled. But many locals reckon it is the government that is losing.

Michoacán happens to be Mr Calderón's home state. It has also become an important hub of the drug trade. Cocaine from Colombia and Peru comes in through Lázaro Cárdenas, its chief port. Marijuana is grown in its mountains. Its hot, trackless south has long been bandit country. Legal jobs are scarce in the state's depressed rural areas, its police are badly paid even by Mexican standards, and families are rent asunder by emigration, with some 2m *michoacanos* living in the United States.

As trafficking for the American and local markets grew, Michoacán became a battleground, involving the Sinaloa mob and the Zetas, an army special-forces squad which switched sides to work for the Gulf

cartel, on the opposite coast. In 2006 some of the Zetas broke away to form La Familia. They used murder and torture to quash rivals, while building a social base in the state. La Familia gives loans to farmers, businesses, schools and churches. It advertises its benevolence in local newspapers. Its absolute amorality goes hand-in-hand with moralism: its footsoldiers are forbidden to use drink or drugs themselves, and one of La Familia's leaders has published a self-help book.

La Familia is now reckoned to be Mexico's biggest maker of methamphetamines, as well as controlling the import, transport and sale of cocaine in the state. But drugs account for only half its revenues. It also sells pirated DVDs, smuggles people to the United States, and runs a debt-collecting service (it kidnaps defaulters, reportedly charging 7% of the settlement). Its extortion racket has squeezed Michoacán's once-prosperous avocado growers and nightclubs almost out of existence. A government employee says her father has run down his timber business, laying off workers, rather than pay the $600 a month demanded by La Familia. It has laundered these revenues by buying or using countless legal businesses. Edgardo Buscaglia, a legal specialist at ITAM, a Mexico City university, reckons that there is almost no economic activity in Michoacán that is untouched by the traffickers.

La Familia has also bought some local politicians. It shows no mercy to those who reject its embrace: some 20 municipal officials have been murdered in Michoacán, including two mayors. Having established its authority, it then names local police chiefs. Last month seven mayors were charged over their ties to the gang. The half-brother of the state's governor, who was himself elected to the national Congress earlier this month, has fled after being charged with graft. Other politicians admit that they are scared. "I know who's from La Familia in my town," says Juan Carlos Campos, who heads the public-security committee of the Michoacán legislature. "I see them in their cars. But I don't report them, because they'd kill me."

Many in Michoacán support Mr Calderón's battle against La Familia. Others are tiring of it. Complaints of abuses by troops are mounting. Leonel Godoy, Michoacán's governor who is from the left-of-centre Party of the Democratic Revolution, called the latest troop deployment "an occupation." He was particularly peeved when federal agents stormed his offices in May.

Vanquishing La Familia will require more than just firepower. Although the government boasts of rising arrests, most of the people it detains are never charged. Mexico's asset-seizure laws are too weak to have much effect on money laundering. Corruption remains rampant. Recession and rising unemployment will provide the crime mobs with a bigger pool of potential recruits. Retaking Michoacán from La Familia will require a better police force and a more effective state. This is a battle that has only just begun.

Brazil's Petrobras

Oil and revolution

Jul 23rd 2009 | RIO DE JANEIRO
From The Economist print edition

Petrobras has vast oil reserves, commercial clout and excellent Chinese connections. But it faces political uncertainty

Getty Images



Gabrielli presses ahead

AS BOSSES of oil majors go, José Sergio Gabrielli stands out as unusual. The chief executive of Petrobras, Brazil's part-public, part-private oil and gas giant, Mr Gabrielli took up left-wing politics at the age of 15. After spending six months in prison under a military dictatorship, he switched to the less contentious field of macroeconomics, obtaining a doctorate from Boston University and a post as a professor at a Brazilian university (from which he is on leave). Returning to left-wing politics in the 1980s, he sought office for President Luiz Inácio Lula da Silva's Workers' Party. But since 2005 he has run the most ambitious oil company in the world. Petrobras is the main developer of the biggest new oilfield discovered this century, deep beneath the Atlantic Ocean.

Political connections are essential for Petrobras. Although 60% of its shares are traded, the federal government is still its controlling shareholder. Its board is chaired by Lula's chief-of-staff, Dilma Rousseff. But politics can also lead the company into trouble. Brazil's Congress recently set up a committee to investigate Petrobras, in response to allegations of padded contracts and political motivation in the company's charitable activities. This week *O Globo*, a newspaper, gave a taste of what is to come with a story revealing that a Petrobras supplier gave as its address an abandoned house occupied by 60 stray dogs and 300 cats.

Mr Gabrielli says he welcomes the investigation as a chance for the public to scrutinise Brazil's biggest company but worries that it will become a political circus, as such congressional committees normally do. Petrobras has already provided 10,000 pages of evidence to disprove the allegation that it paid over the odds for work on a new refinery. There will be many more such accusations, and they are likely to create an impression of wrongdoing even is nothing is actually proven. The same goes for Petrobras's large charitable budget—the company helps to save turtles and subsidise films, for example. This is administered more professionally than in the past, but Petrobras is still vulnerable to charges of political favouritism.

Although the investigation may do some damage to Petrobras's reputation, this is likely to be slight. The committee has a pro-government majority. Its members include Fernando Collor, a former president who resigned in 1992 while facing impeachment for corruption, and Marcelo Crivella, a bishop in the Universal

Church of the Kingdom of God, a Pentecostal outfit. They will add to the spectacle.

A second uncertainty facing Petrobras concerns a new legal framework governing further exploration for "sub-salt" oil (the new fields lie underneath a layer of salt below the seabed). A committee set up by the government to study this is due to report shortly. It is expected to propose vesting all unassigned rights in the sub-salt area (62% of the total) in a new, wholly state-owned, company which would partner Petrobras or any other firm that signs exploration contracts.

Different government factions favour earmarking the revenue from these partnerships for education or infrastructure, whereas other officials want it to go into the general federal coffers. One danger for Brazil is that the new company will be a lucrative shell with no real function except to satisfy the avarice of politicians. The biggest peril for Petrobras would be if the new outfit becomes a commercial rival.

Petrobras is pressing ahead with an ambitious plan to invest $174 billion over the next five years. Critics question how much of this will materialise. But Mr Gabrielli says that even if the oil price falls to no more than $45 a barrel, the $30 billion that he has raised this year will be enough to fund plans for the next two years. If the oil price is at $65 a barrel (where it stood this week) the company can fund plans for the next five years. In addition to developing the new fields, it wants to build five new refineries, to generate more electricity and to build a network of gas pipelines in Brazil.

Petrobras raised $10 billion from China's government earlier this year, in return for promising Sinopec, a Chinese state oil firm, a guaranteed supply of up to 200,000 barrels of oil a day for ten years. Mr Gabrielli wants more such deals. Apart from the sub-salt fields, Petrobras is exploring 270 blocks in the Gulf of Mexico and over 200 more onshore in Brazil. He may tap China to fund this, too. The Chinese, grins Mr Gabrielli, "prefer to make agreements than to send in their army to secure supplies, like the Americans." The oil boss still bears a vestige of the agitator of 15 years ago.

Ecuador, Colombia and the FARC

From the guerrilla's mouth

Jul 23rd 2009 | BOGOTÁ AND QUITO
From The Economist print edition

Mistrust deepens between neighbours



SPEAKING earlier this month Ecuador's foreign minister, Fander Falconí, observed that his country's relations with Colombia had never been as bad. They just got worse: a video leaked to the Associated Press and published on July 17th showed the military commander of the FARC, Colombia's biggest guerrilla group, saying that his organisation gave "aid in dollars" in 2006 for the election campaign of Rafael Correa, Ecuador's president and had reached "agreements" with Ecuadorean officials.

There is no evidence that Mr Correa himself knew about any FARC donation, and he denies that any existed. Ecuador's electoral commission approved his campaign's accounts. Mr Correa was quick to claim the video was a "fabrication". But that is implausible. The FARC commander, Jorge Briceño, is well-known. Colombian police found the video, which shows him reading a letter to a group of guerrillas last year, on the computer of a FARC organiser arrested in Bogotá in May. His remarks referred to the damage done by the leaking of guerrilla "secrets" contained in e-mails found on computer equipment belonging to Raúl Reyes, a senior FARC leader killed when Colombian forces bombed and raided his camp just across the border in Ecuador in March last year.

That raid prompted Mr Correa to cut diplomatic ties with Colombia. They have not been restored. Colombian officials say privately that their efforts to defeat the FARC, whose money comes mainly from drug-trafficking and kidnapping, are hindered by the complicity of some Ecuadorean officials with the rebels. In his e-mails, Reyes wrote of giving $100,000 to Mr Correa's campaign and of a later meeting with his interior minister. This was to discuss the release of FARC hostages, said Ecuador. But the minister's former deputy who also met Reyes was arrested this year on suspicion of drug-trafficking. He said he sympathised with the FARC.

Mr Correa complains that Colombia, an American ally, is trying to destabilise his socialist government. His government claims to have dismantled more than 200 FARC camps. It has filed a complaint at the International Court of Justice over Colombia's spraying of coca fields along the border. It is preparing another suit over the raid on Reyes' camp, which it says violated Ecuador's sovereignty. A judge in Sucumbíos province recently asked Interpol for help in arresting Juan Manuel Santos, Colombia's defence minister at the time of the raid and now a presidential candidate (the request was denied).

Colombia made no public response to all this. The leaking of the video marks a more aggressive approach, perhaps triggered by Mr Correa's seeming radicalisation since he won a fresh election under a new constitution in April. Relations between Mr Correa and Colombia's president, Álvaro Uribe, once reasonably close, are now marked by deep mistrust and personal antipathy. That is starting to hurt their countries' close economic ties. Earlier this month Ecuador raised tariffs on hundreds of Colombian products.

Mr Correa remains popular, partly because he has lavished oil money on social programmes. He has won two presidential elections by comfortable margins. He has shaken off other embarrassments, such as recent revelations of government contracts awarded to his brother. But he has also picked many fights, defaulting on bonds and bullying foreign investors for example. Outside Ecuador, the FARC video will do nothing to encourage the idea that Mr Correa, whatever his political talents, is a responsible statesman.

Canada's prairie drought

Back to a dusty future

Jul 23rd 2009 | VANCOUVER
From The Economist print edition

Farmers fret as the rivers dwindle



DURING the Depression of the 1930s, drought turned much of Alberta and Saskatchewan, on Canada's western prairies, into a dust bowl. The combination of poor harvests and low grain prices drove thousands of farmers off the land. Now some prairie dwellers reckon history is repeating itself. The fall in oil and gas prices from their record highs a year ago has brought an abrupt halt to Alberta's energy-based boom. And while grain prices have picked up, drought has once again brought billions of dollars of losses to farms and ranches.

A huge swathe of farmland spanning central Saskatchewan and Alberta, and angling northwest into British Columbia's Peace River valley has suffered its driest winter and spring in at least 50 years (and 70 in some districts). Rainfall has been less than 40% of its normal level. Ranchers are staring at dry water holes and desiccated pasture, forcing them either to sell cattle or buy feed. Farmers are kicking at shrivelled crops. Heavy rains in late June and early July may make some fields worth harvesting but many are already lost. Some 900 farmers around Kindersley, south-west of Saskatoon, have ploughed their crops under and claimed insurance, according to Stewart Wells, the president of Canada's National Farmers Union. He foresees losses of up to 30% in wheat, barley, rapeseed and hay, and more if the drought continues.

Alamy



Less where that came from

Worse, such conditions may become the norm. David Schindler, an ecologist at the University of Alberta, says that evidence from tree rings and ancient algae suggests that the prairies were drought-prone in the past and that the 20th century was unusually wet. The prairies lie in the eastern rain shadow of the Rocky Mountains. Almost all their rivers flow eastward from the Rockies. As global warming melts mountain glaciers, the rivers' summer flow has dwindled by up to 60% (more in one case) of their historical average. But more water is being drawn from them for cities, irrigation and the processing of oil from tar sands. Mr Schindler fears that unless these trends are reversed, the prairies risk becoming semi-desert.

Farmers grumble that their margins are so low that a bad year can bankrupt them. Last month their union urged the federal parliament to support family farmers and curb the power of agribusiness corporations. Perhaps prairie populism is on the way back, too.

Pakistan takes on the Taliban

On the charge in Malakand

Jul 23rd 2009 | SULTANWAS, BUNER
From The Economist print edition

Pakistan's army claims a rare success in its campaign against the Taliban

Getty Images



SULTANWAS, a once-prosperous village in Pakistan's North-West Frontier Province (NWFP), is now a bomb site. Its white concrete houses, gaudily decorated thanks to migrant wages sent back from Dubai, lie in heaps. Debris that had billowed in great clouds after army jets bombed the village in early May litters the surrounding fields. The Taliban, who had occupied Sultanwas a few weeks before, had no chance; 80 allegedly died in the rubble.

If, as the army claims, the Taliban are now in retreat in north-western Pakistan, Sultanwas was their Waterloo. It was destroyed in the biggest battle of an offensive to take back Buner, a district of NWFP that was briefly world-famous for being in Taliban hands and only 100km (62 miles) from Pakistan's capital, Islamabad. This was part of a bigger operation, inspired by the outcry over Buner's capture, to restore the government's writ across NWFP's Malakand region, which also includes Swat, a Taliban stronghold that the army had twice tried and failed to secure.

Involving some 40,000 troops, the army's action has been devastating. Over 2m have been displaced, in what may be the biggest unplanned movement of people since the 1994 Rwandan genocide. Hundreds are reported to have been killed. Yet the army, which has received unprecedented public support for its attack on the Taliban, is claiming a great success.

It says it has killed 1,700 militants in Malakand, or about a quarter of the Taliban's total there, and seriously wounded their leader, a former boatman called Mullah Fazlullah. Most neutral observers consider this an exaggeration: the army's estimation of enemy losses tends to be based more on hope than corpses. And even if it has incapacitated Mr Fazlullah—which may well be unlikely given that he has been heard broadcasting recently (see article)—it has killed or captured almost none of his commanders. And yet Swat, for the first time in two years, is now mostly under military control. Its biggest town, Mingora, which late last year had been a battlefield shelled by the army and littered by militants with headless corpses, appears to have been captured almost without a fight. On July 13th the government began allowing refugees to return to Swat and Buner. Over 300,000 have done so.

The army's success was based on numbers. It dispatched roughly

three times as many troops to Swat as previously, which allowed it to storm or encircle Taliban positions. In Buner, for example, an advance party of tanks was briefly halted by an ambush involving suicide bombers in the narrow Ambela pass. By sending infantry over the surrounding heights, however, the army was able to outflank the resistance swiftly. The mere threat of encirclement, the army claims, frightened militants out of Mingora. With adequate force, it was then able to pursue them to their mountain fastnesses—including a fortified cave complex at Peochar, to which 8,000 commandos were airlifted in May.



Mr Fazlullah, a member of the Pakistani Taliban—a loose conglomeration of Islamist warlords—is a resilient militant. By chasing away landlords and promising their land to the landless, he has built a following among poor Swatis. He may yet return. But Pakistan's rulers are at least promising to take steps to prevent this, first by maintaining security in Malakand. The army is due to remain there in force for a year, and build a permanent base near Mingora. NWFP' s government has said it will stiffen the region's police force with 2,500 former soldiers, and double its overall size.

It also vows to rebuild Malakand's shattered infrastructure, including over 300 schools destroyed by the Taliban, and 500 houses in Sultanwas alone. The UN says this may cost billions; it is not clear where the money will come from. "No one knows what will happen to us," laments Shamin Khan, one of a few hundred residents of Sultanwas camping besides the ruins. For emergency cases, the government has promised 25,000 rupees ($305) to 230,000 displaced families—and claims that over half have already received this.

Given Pakistan's dire record of governance, these plans may fail. And the army, always loth to do policework, may withdraw too soon. Yet the campaign's high profile in Pakistan and huge public support, makes this less likely. An opinion poll released this month suggested that 70% of Pakistanis back the army against the Taliban in Swat. Every big political party, including the main opposition Pakistan Muslim League (Nawaz), which has been considered sympathetic to the militants, has pledged support to the campaign.

The army expects similar backing for its next operation—an impending assault on the Pakistani Taliban's leader, Baitullah Mehsud, in his tribal fief of South Waziristan. The alleged architect of a two-year terrorism spree, in which thousands of innocent Punjabis, Sindhis and Pushtun have been killed, Mr Mehsud is another popular target. And the army, buoyed by unaccustomed plaudits, hints that it will not stop there. According to Major-General Tariq Khan, commander of the Frontier Corps, a 60,000-strong paramilitary force charged with controlling the tribal areas, "No militant is going to get away." Having been embarrassed by many failed truces with the Taliban, he predicts that the army will now crush them. "[There'll be] no more peace deals anywhere."

This sounds optimistic. It will be hard to take out Mr Mehsud without the compliance of two rival militants, Muhammad Nazir and Gul Bahadur, who control access-routes to his fief. Last month both men declared the end of truces with the government—perhaps fearing that if Mr Mehsud were removed they would be next. On June 28th Mr Bahadur's men killed at least 23 soldiers in an ambush. Frontier watchers in Peshawar, NWFP's edgy capital, speculate that the army may be trying to re-enlist the support of these brigands.

More depressingly, Pakistan's rulers show little interest in pursuing militants dedicated to fighting India, including those of Lashkar-e-Taiba (LET) who launched an amphibious attack on Mumbai in November. On July 20th the sole surviving terrorist, Muhammad Ajmal Qasab, a confessed LET member, described his part in the assault to a hushed courtroom. Pakistan, which initially denied any link to the attack, says it will try five alleged ringleaders this month. Yet there is scant evidence that it is dismantling the banned group, as India has demanded as a condition for resuming peace talks with its neighbour. Last month Hafiz Saeed, LET's founder, was released from house-arrest for want of evidence connecting him to the Mumbai attack. The Islamist charity he heads, Jamaat-ud-Dawa, banned by the UN after Mumbai, is operating under a new name, Falah-i-Insaniat. It did sterling work among the refugees of Malakand.

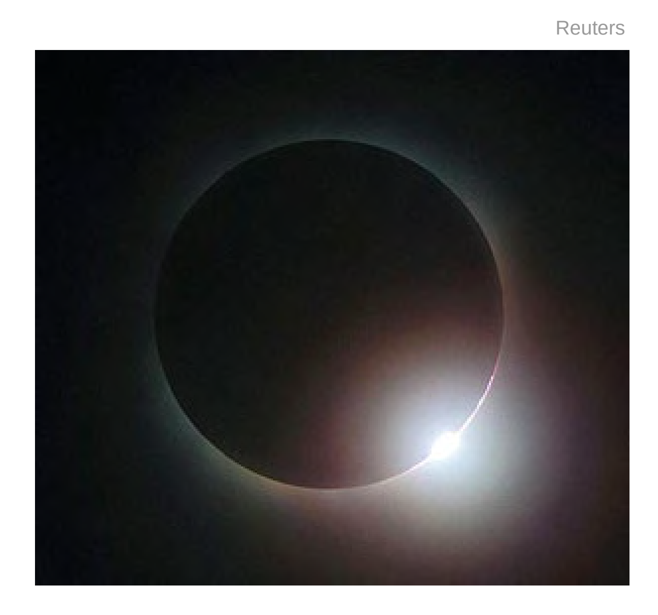
Our conversation with Major-General Tariq Khan is available at Economist.com/audiovideo/asia

China's eclipse

The solar eclipse in China

Jul 23rd 2009
From The Economist print edition

Reuters



On July 22nd the moon's shadow fell across China's industrial heartland in the longest total solar eclipse the 21st century will witness. Never before have so many people lived under an eclipse's path. Like other ancient civilisations, China has traditionally seen eclipses as ominous. A government directive ordered officials to combat "superstition and terror", watch out for traffic accidents caused by distracted motorists and prevent stampedes. On state-run television, an "anti-cult" expert warned viewers against being taken in by "people with ulterior motives". Local governments, however, vied to cash in on the tourism opportunities afforded by foreign eclipse-watchers flocking to China. It was cloudy or rainy. Had the weather been better, citizens of Shanghai would have seen the moon-covered sun rising over the financial district for nearly six minutes. Official newspapers were probably glad not to have to second-guess censors' concerns about that kind of imagery. Shanghai's stockmarket was unfazed. Share prices saw their biggest gains in seven weeks. In the international year of astronomy, markets, at least, seem less superstitious than they were (see article).

China, the law and NGOs

Open Constitution closed

Jul 23rd 2009 | BEIJING
From The Economist print edition

The state cracks down on civil society

ONE of the more hopeful flickering signs of democracy in China in the past few years has been the growth of public-interest lawyers willing to challenge in court examples of abuse and corruption by the state or local governments. Now, the empire is striking back.

On July 17th government officials descended on one of the best-known legal research groups and took away almost everything it owned—files, desks, computers, even the water cooler. To make matters worse, the tax authorities slapped on the group a colossal bill, ordering it to pay 1.42m yuan ($207,900).

The organisation, the Open Constitution Initiative (OCI), is so well known among Chinese NGOs and so prominent in civil-rights cases that the government seems wary of confronting it directly. Instead, taking a leaf out of the Russian book, officials are making its life impossible. In China very few NGOs are allowed to register as such. The only way they can operate legally is as businesses. The OCI's name in Chinese translates as the Public Alliance Information Consultancy Company (it is often referred to by its abbreviation, Gongmeng). It has to pay business taxes. Hence the tax bill, which the group says it has paid. The authorities have also declared a research group within the organisation illegal because, they say, it is unregistered.

The group's leader, Xu Zhiyong, is bracing himself for possible arrest. On July 21st the owners of his office and residence called him to say they wanted him out. Guo Yushan, the leader of another, less well-known NGO, a free-market research group called the Transition Institute, says he too has recently been accused of tax irregularities. A prominent HIV/AIDS NGO, the Aizhixing Institute, was subjected to a tax investigation last year. Last week the government disbarred 53 lawyers, including one associated with OCI.

Mr Xu seems to have made some powerful enemies. Since it was set up in 2003, OCI, with half a dozen staff and numerous volunteers, has specialised in giving legal advice to victims of official injustice. After thousands of children were sickened by melamine-contaminated milk last year, OCI helped their parents press for compensation, upstaging a government-backed compensation scheme which offered lower amounts. In May OCI probably irritated the government further by issuing a report on the causes of last year's unrest in Tibet. The government blamed the trouble entirely on an alleged plot by Tibetans in exile led by the Dalai Lama. The OCI study said that while the Dalai Lama was a factor, there were "internal causes", such as the economic marginalisation of Tibetans and interference in Tibetan Buddhism by government officials.

This year is proving to be a difficult one for dissenters in China because of the government's anxiety about politically sensitive anniversaries (last year, preparations for the Olympic Games made the government twitchy). Security will be stepped up in the coming weeks, in advance of the 60th anniversary of the founding of communist China on October 1st. China's independent lawyers have long risked beatings and intimidation by local officials. Life for them seems to be getting even harder.

India and America

Dripping healing oil

Jul 23rd 2009 | DELHI
From The Economist print edition

Hillary Clinton shows India that America cares

Illustration by David Simonds



WHEN she landed in Mumbai on July 17th as the first front-rank visitor from Barack Obama's administration, Hillary Clinton, America's secretary of state, faced an unfamiliar difficulty. India was uncommonly keen on his predecessor, George Bush. In the words of Manmohan Singh, the prime minister, its people "deeply loved" Mr Bush for his efforts to strengthen bilateral bonds between the world's biggest democracies.

At the heart of this strengthening was a nuclear co-operation agreement that made India an exception to the global counter-proliferation regime and a more legitimate nuclear power. By contrast, many Indians have looked on Mr Obama nervously. On the campaign trail, he threatened protectionism against their outsourcing industry. In office his team has paid more attention to Pakistan. America has also been paying court to China—against which Mr Bush had wanted India as a counterweight.

Many Indians fear Mr Obama's administration will judge their country by how far it helps with two issues that Mr Bush was conveniently uninterested in. The first is counter-proliferation, which Mr Obama wants to support by ratifying the Comprehensive Nuclear Test-Ban Treaty, considered by India an unacceptable restraint on its nuclear-weapons programme. The other is climate change, on which Mr Obama wants a new global agreement which would ask developing countries such as India to offer some sort of commitment to contain their carbon emissions.

On a three-day visit, Mrs Clinton's main brief was to soothe Indian nerves. She began well—by putting up at the Taj Mahal Hotel in Mumbai, where 31 people were killed by Pakistani terrorists during an assault last November. Likening that terrorist outrage to the ones in America on September 11th 2001, Mrs Clinton expressed America's "very strong sense of solidarity and sympathy". Proceeding to Delhi, Mrs Clinton continued to dribble Ayurvedic oil on Indian tics. She invited Mr Singh to visit Washington in

November. She announced an agreement to remove one of the last obstacles to sales of sophisticated American weapons to India.

The one cloud hovered over the issue of climate change after Mrs Clinton hinted that India should accept some cap on its emissions: "There is a way to eradicate poverty and develop sustainably that will lower significantly the carbon footprint of the energy that is produced and consumed to fuel that growth." However circumlocutory, it was enough for India's environment minister, Jairam Ramesh, to take umbrage. Given India's relatively low emissions per head, he said there was "no case" for the "pressure" on India.

This was sadly inevitable. As efforts continue to reach a new agreement on carbon emissions ahead of the climate summit in Copenhagen in December, India seems happy to be among the most cussed obstacles to negotiation. For the time being, no amount of diplomatic balm can change that.

China and America

Doubled up

Jul 23rd 2009 | BEIJING
From The Economist print edition

G2: twice as big, no more productive

ADDING a conjunction to the name of a diplomatic forum may not sound like much, but America and China insist it is significant. On July 27th the two countries will hold their first Strategic *and* Economic Dialogue attended, unlike previous conjunctionless ones, by America's secretary of state. Both hope the upgrade will help them deal with everything from climate change to global economic imbalances. It may not.

China, ever worried about the impact of its rising power on American political opinion, has been pleased that Barack Obama's campaign slogan "change" does not seem to apply to America's dealings with China itself. The new forum merely tweaks the Strategic Economic Dialogue launched by President Bush in 2006 which was led on the American side by the treasury secretary. It also absorbs a security-focused forum called the Senior Dialogue which began in 2005. Hillary Clinton's involvement, alongside her treasury counterpart, Timothy Geithner, raises the status of America's participation, which, the Americans hope, will encourage more progress on issues—especially climate change—that straddled the remits of the forum's precursors.

On the global economy, the two sides are already broadly in agreement. Both have big stimulus programmes. Both think China's consumers need to spend more, America's to save more. China mutters about moving away from the dollar as a reserve currency but in May, its holding of US Treasury debt rose by $38 billion, to more than $801.5 billion—its highest level ever. Climate change, on the other hand, is producing posturing. The topic has been a prominent one in recent visits to Beijing by American officials, including Mrs Clinton, Mr Geithner and the commerce secretary, Gary Locke. In a speech to businessmen, Mr Locke said pointedly that 50 years from now, China "does not want the world community to lay blame for environmental catastrophe at its feet."

Despite the approach of UN-sponsored climate-change talks in Copenhagen in December, America and China—the world's biggest contributors to global warming—show little sign of consensus. A visit by Mr Obama himself to China, which is likely to take place not long before the Copenhagen conference, may help focus minds. A conjunction of them is harder to imagine.



Terrorism in South-East Asia

After the bombings

Jul 23rd 2009 | BANGKOK
From The Economist print edition

The fight against Jemaah Islamiah is going better than it might seem

EPA



As many thorns as petals

CROSS-BORDER co-operation tops the agenda whenever ministers in South-East Asia meet, as they did this week on the Thai island of Phuket. Until now, legitimate businesses have struggled to build a common presence in the region. Sadly, the same cannot be said for Jemaah Islamiah (JI), an extremist group blamed for suicide bombings at two fancy business hotels in Jakarta on July 17th.

The group cross-pollinates jihadists from Malaysia, Singapore, Indonesia and the Philippines. It feeds on sectarian strife, lax policing and anti-Western hatred. Indonesia has felt the brunt of its rage: one of the two hotels hit last week, the JW Marriott, was bombed in 2003. In 2002 over 200 people died in suicide bombings in Bali.

Since then, Indonesia has arrested hundreds of JI suspects. Singapore, Malaysia, Thailand and the Philippines have nabbed others. The threat appeared to be contained, if not removed. Indeed, a good security record helped Indonesia's president Susilo Bambang Yudhoyono easily win a second term in an election on July 8th.

The terrorists may have exploited a post-election lull by security forces. One of their targets was a monthly breakfast meeting of Western executives. A third bomb was later found at the hotel in a room where the terrorists had stayed. Police are trying to identify two suicide bombers who were among the nine dead. Their enquiries have led them to al-Mukmin, an Islamic boarding school in Java that has produced perpetrators of previous JI atrocities, such as the 2003 Marriott attack.

By eerie coincidence, an Australian think-tank published a report on July 16th that pointed to a renewed JI threat. The report's co-author, Noor Huda Ismail, has a fine vantage point: he is an al-Mukmin alumnus turned security analyst. He says that JI hotheads share a commitment to anti-Western violence, even though the organisation has become somewhat factionalised. The group blamed for the Jakarta bombings is led by Noordin Top, a Malaysian. Other senior operatives are loose in the lawless southern Philippines, which serves as a regional training base for jihadists. A recent surge in bombings there may be JI's handiwork. A JI cell leader in Singapore who escaped from jail in 2008 was recently recaptured in Malaysia.

Indonesia may have let its guard down but it is no longer the weak spot in South-East Asia's fight against terrorism. Its American-trained specialist police have rolled up JI cells and sent suspects to trial, so that Indonesia's overwhelmingly Muslim population can see justice being done. In contrast, Singapore and Malaysia have detained terror suspects without trial. Indonesia has also persuaded reformed jihadists to try to talk their brethren out of their beliefs, with mixed results. Some are being released from jail, which Mr Ismail says could be destabilising. What Indonesia has not done is close radical schools like al-Mukmin or figured out how to counter JI ideologues like Abu Bakar Basyir, the choleric cleric controversially acquitted of involvement in the Bali bombings. A job for Mr Yudhoyono's second term, perhaps.

Taiwan, China and Ma Ying-jeou

The thoughts of Chairman Ma

Jul 23rd 2009 | TAIPEI
From The Economist print edition

Why the president's decision to become party chairman matters to China

TAIWAN'S President, Ma Ying-jeou, is the sole candidate and he is only campaigning for the position in his spare time, but his shoo-in election on July 26th as chairman of his own Nationalist Party (the Kuomintang or KMT) could one day have a big impact on the island's relations with China. In the complex choreography of cross-strait ties, titles mean a lot and KMT chairman potentially most of all.

Mr Ma himself is too cautious a politician to speculate along these lines, but Taiwan's media have been full of conjecture that one of his motives in acquiring the extra title of party leader is to pave the way for a possible meeting with China's President, Hu Jintao. Such a meeting would be big news in East Asia and few believe it to be imminent, despite a rapid improvement in cross-strait relations since Mr Ma took office in May 2008. There has been no summit between the two sides since the KMT fled to Taiwan at the end of the Chinese civil war in 1949.

But, if the presidents of Taiwan and China are to meet, a way would have to be found for Taiwan's leader to be accorded due dignity while allowing China to avoid appearing to acknowledge Taiwan's statehood. China abhors the use of the word "president" to describe Taiwan's top official. Its media use inverted commas around the names of Taiwanese government bodies to cast doubt upon their legitimacy. For Mr Hu to call Mr Ma president would, in China's view, be tantamount to recognising Taiwan's independence.

Chairman Ma, however, sounds more palatable than President Ma. And President Hu also happens to be general secretary of the Chinese Communist Party. By meeting as party leaders, not heads of state, the two could sidestep embarrassing questions about Taiwan's status. (Mr Ma does not have scruples about calling Mr Hu president, even though Taiwan's curious constitution could be construed as making Mr Ma president of Taiwan, mainland China and even Mongolia).

China happily receives KMT visitors. Mr Hu met the KMT's departing chairman, Wu Poh-hsiung, in 2008. In 2005 the then-KMT chairman, Lien Chan, saw Mr Hu when the party was in opposition—at that point, the highest-level contact between the two parties since 1949. Mr Wu was back in China this month for a conference on cross-strait ties organised jointly by the KMT and Communist Party.

But Mr Ma seems in no hurry to meet Mr Hu. He told *The Economist* recently that the purpose of seeking the party chairmanship was to ensure closer co-operation between the party and the executive branch. Some analysts believe he needs to take more direct control of the KMT's campaign in mayoral and county leadership elections at the end of the year (the global economic crisis is hitting Taiwan hard and denting his party's support). "At the moment," he said, "I do not have any plan to meet with the leader of mainland China in the capacity of president or chairman."

Mr Ma faces re-election in 2012 and Mr Hu is all but certain to step down as party leader late that year (he is also constitutionally obliged to give up the presidency in March 2013). Some speculate that the two men's desire for legacies might encourage a meeting before then. A Chinese newspaper, *Southern Weekend*, suggested in January they should share the Nobel Peace Prize. That at least might get up them up on the same stage.

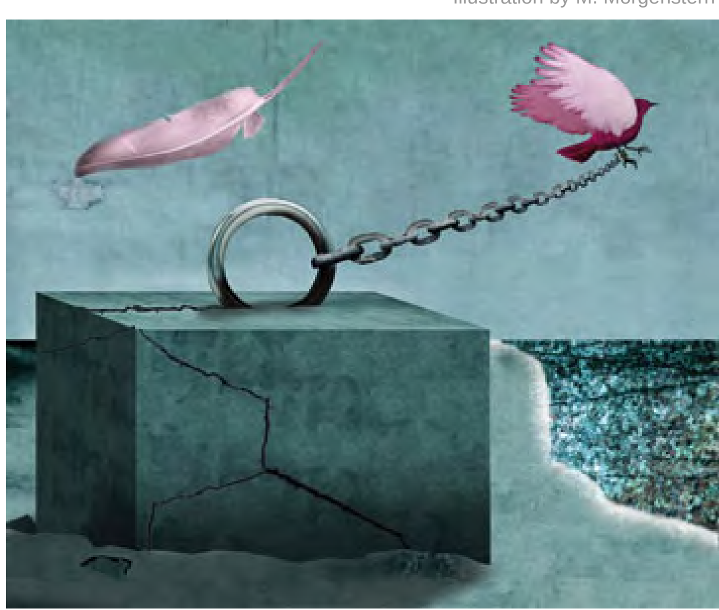
Banyan

The Lady should be for turning

Jul 23rd 2009
From The Economist print edition

Aung San Suu Kyi is remarkable. But Myanmar's problems are more than just those of democracy denied

Illustration by M. Morgenstern



JULY 20th marked the 20th anniversary of the day when military rulers first placed Aung San Suu Kyi under house arrest. The leader of Myanmar's democracy movement has since spent more than 13 years detained at home or, as now, in a Yangon prison. She awaits the verdict of a sham trial in which she was charged with breaking the terms of her detention after an uninvited American, a nut, swam across to her lakeside home. Miss Suu Kyi plays a long game. But so does the military. It seized power in 1962. It has used force to put down two extraordinarily brave sets of pro-democracy protests, in 1988 and 2007. And it has ignored the result of free elections in 1990, convincingly won by Miss Suu Kyi's National League for Democracy.

Miss Suu Kyi, 64 and frail, has not wavered in her call for the junta to respect the election result and free what are now thought to be 2,100 political prisoners. She has long argued for countries to apply pressure by forbidding companies to trade with Myanmar or invest in it. The West has responded with sanctions regimes. Britain's prime minister, Gordon Brown, recently called for even tougher financial measures against Myanmar.

There is no doubting Miss Suu Kyi's courage. A decade ago she turned down the generals' offer to leave the country (presumably, for good) to care for her dying husband. She never saw him again. Two sons have not seen their mother for years. Miss Suu Kyi's moral stature puts her on a level with other imprisoned or exiled symbols of quiet resistance, the Dalai Lama and Nelson Mandela. She keeps democratic hopes alive in Myanmar; and around the world she inspires campaigners for freedom in the face of thuggish regimes. Elegant and dignified, she is the person any engaged liberal at Harvard or Oxford most wants to invite to dinner but can't. This year garden parties at British embassies celebrating the Queen's birthday were decorated with portraits of Miss Suu Kyi. At the embassy in Jakarta, a picture of her is projected onto an outside wall. She is, literally, democracy's poster girl.

For weeks the military regime has delayed pronouncing a verdict in its trial, perhaps so as not to embarrass fellow members of the ten-country Association of South-East Asian Nations (ASEAN), meeting for its annual summit this week in Thailand. Yet few doubt but that Miss Suu Kyi will be put away for even longer. Her house, which has become a shrine to the democracy movement's living deity, may be confiscated and razed. Myanmar's leaders have called for elections next year, but on terms that ensure

the military is the force behind civilian rule. Having Miss Suu Kyi to stand and fight is not part of the programme.

An even longer game, then, for Miss Suu Kyi and her supporters. But is it the right one? A growing body of opinion thinks not. It follows a tedious ritual. The world calls for freedom and democracy. The United Nations dispatches a representative to Yangon. He is fobbed off. The Lady continues in detention. The UN's most recent big cheese was none other than the secretary-general. Ban Ki-moon left Yangon earlier this month without being allowed to meet Miss Suu Kyi.

This costs more than just wasted journeys. Myanmar is rich in natural gas, timber and gems. China and India, strategic rivals to east and west, chummy up to the junta. The Burmese elite has second homes and bank accounts in Thailand. Russia sells the generals arms, as does China, and both provide cover for the generals on the Security Council. So Myanmar does now in fact engage with the world—but its engagement takes the ugly form of a rapacious capitalism with amoral partners. Hillary Clinton, on her first trip to Asia as secretary of state, admitted that isolation "hasn't influenced the junta". An American review of Myanmar policy is under way, but official silence over Miss Suu Kyi's trial hints at a certain confusion. Because there is no engagement, America's soft power has no traction.

Worse, everyone from the UN down views Myanmar through the lens of democracy above all else—even development. For a desperate country with shocking rates of disease and mortality such a priority is dubious at best, shameful at worst. If nothing else, it fails to acknowledge how development can improve local governance. In the Irrawaddy delta in the wake of cyclone Nargis, which struck last year killing 140,000, deciding how humanitarian aid should be spent has increased civic participation and local autonomy in the face of an uncaring regime. Yet apart from Japan, official aid levels to Myanmar are pitiful compared even with other poor countries.

Icon or obstacle?

Lastly, depicting Myanmar as a kind of velvet revolution gone wrong, as Thant Myint-U, a historian of Burma, points out, is to ignore a big part of the picture. The paranoid regime's inward-looking cast is conditioned by centuries of invasions, among them by the British and, after independence in 1948, by American-backed Chinese Nationalists. Since independence, the military has faced dozens of communist and ethnic insurgencies. It is true that since the 1990s, ceasefires have been signed in all but two. But independent Burma did not emerge as a unified state and, under early democratic rule, insurgencies flourished. The remaining conflicts, financed by drugs trafficking, are the longest-running wars in the world. They cannot simply be ignored.

Sanctions have helped bring about no democratic transition in Asia—on the contrary. So imagine if the West reversed policy, dropped sanctions and pursued engagement. The generals have already looked at the development paths blazed by China and Vietnam and said they want to follow. In comparison to the regimes in those two countries, Myanmar's badly lacks legitimacy. So Mr Thant says that development could bring about swift changes to the political landscape, as eventually happened in Indonesia. Development, in other words, could be the fastest path to democracy. Will the courageous Lady admit as much?

South Africa's economy

A battle for control has begun

Jul 23rd 2009 | JOHANNESBURG
From The Economist print edition

President Jacob Zuma will have to use his fabled skills as a conciliator to balance the factions in his new government

Reuters



FACTORIES across the country had to close this week as many thousands of workers in chemical and other industries downed tools to press for double-digit pay rises. Hundreds of thousands in the public sector are threatening to strike for a 15% rise too. State broadcasting people may black out the country's television screens unless their demand for a 12% wage hike is met. And state doctors and teachers plan to strike again if the government fails to give them long-promised big bonuses. Meanwhile, increasing violent demonstrations are being staged in protest against the government's failure to provide basic services such as water, electricity and housing.

President Jacob Zuma always knew he could not expect much of a honeymoon, despite the landslide victory of his ruling African National Congress (ANC) in April's general election. His costly campaign pledges had raised expectations high, just as South Africa was sinking into its first recession in 17 years. After expanding by 3.1% last year and by an average of 5% over the preceding four years, the economy is expected to shrink this year by around 2%, a far cry from the 1.2% growth on which the government based its budget in February.

Some of the ANC's election pledges have already fallen by the wayside. No more has been heard of its promise to extend child-support grants to the age of 18 instead of just 14. Plans for national health insurance seem to have been shelved, at least temporarily. At the same time, many more South Africans are joining the 40% who already live below the poverty line, as struggling companies lay off workers. Officially, nearly one in four South Africans is now jobless; the real number is probably nearer one in three. Inflation is running at 8%. The cost of food and fuel has risen particularly fast. It is harder than ever for the poor majority to get by.

It is now winter in South Africa. In the shanty towns around the big cities, people are cold as well as hungry. Their president promised that the drive to eradicate poverty would be the cornerstone of his new government's policies. The millions who live in leaky shacks without electricity or running water, surrounded by unlit streets rife with crime, know that these conditions cannot change overnight. But many are impatient. This week police in Johannesburg's Thokoza township had to fire rubber bullets and squirt tear gas to disperse stone-throwing protesters railing against unemployment and the government's failure to deliver services.

Despite dipping state revenues, the government says it will not cut spending, letting the budget deficit

widen instead. Even so, it will be unable to fulfil all its election pledges—certainly not overnight, as some seemed to expect. This has led to tensions between the ANC and its friends in the Congress of South African Trade Unions (Cosatu) and the South African Communist Party (SACP), which have hitherto vaunted their three-way alliance. After being largely ignored during Thabo Mbeki's nine-year presidency, which ended ingloriously last year, they had helped propel Mr Zuma to power, expecting to wield a lot more influence in his new administration. Now they fear this may not happen.

Insisting on the need to impose a "working-class hegemony", Zwelinzima Vavi, Cosatu's secretary-general, has suggested that policy should be determined by the alliance, not the government. "We are the policymakers," he said, "and the government implements. The government doesn't lead any more." He clearly did not mean to restrict this to trade-union matters, either. To the chagrin of foreign investors, Cosatu tried in May to block the multi-billion rand sale of Vodacom, South Africa's state-owned mobile-phone operator, to Britain's Vodafone; the courts blocked its bid. More recently Cosatu has been demanding the nationalisation of mines, the abandonment of inflation targeting by the central bank, and the removal of its respected governor, Tito Mboweni.

Former union leaders hold seven posts in Mr Zuma's 34-member cabinet, including the labour and economic-development briefs. Another four posts have gone to Communists, including the trade and industry ministry. Both Cosatu and the SACP have threatened to recall any of "their" ministers who fail to toe the party line. But Trevor Manuel, South Africa's respected market-friendly finance minister for the past 13 years, is meant to forge economic policy as head of a new and potentially powerful National Planning Commission in the president's office. The new finance minister, Pravin Gordhan, previously an efficient head of the tax service, is said to hold similar views to Mr Manuel's, despite once being a Communist, as were many other leading ANC figures.

This is not an easy mix. From the outset, Collins Chabane, the minister responsible for monitoring ministerial performance, predicted a "bruising battle over policy direction" between factions in Mr Zuma's broad-church government. Long silent, the president recently appeared to call his warring troops to order. Although a "robust debate" within the alliance was nothing to be alarmed about, he said, it should be remembered that it was the ANC (and not Cosatu or the SACP) that had been given a mandate to rule the country for the next five years. As the "leading partner" in government, the ANC was responsible for making policy, he insisted.

This week, however, he announced that Mr Mboweni, a doughty opponent of left-wing demands for the central bank to abandon inflation targeting in favour of lower interest rates and economic growth, would step down in November. Though Mr Zuma claimed to have invited Mr Mboweni to stay on for a third five-year term, the governor's supposedly voluntary exit smacks of a sop to the ANC's restive left-wing allies. He will be replaced by Gill Marcus, a former deputy governor of the bank who currently heads ABSA, one of South Africa's four main lending banks. Though respected for her independent mind, she may be more open to debate on the central bank's mandate.

It is still too soon to tell whether Mr Zuma will be able, or want, to hold his left-wing allies in check. For the moment leading businessmen sound sanguine but wary. "We may not particularly like the man," said one, "but we are pragmatic. We won't be holding our noses." After nearly two years of uncertainty during the bitter power struggle between Messrs Mbeki and Zuma in the ANC, leading businessmen hope for more stability and clarity under the new administration. As the president seeks to balance the various elements in his disparate government, they are still waiting to see which way he will go.

Mauritania and the African Union

All is rather easily forgiven

Jul 23rd 2009 | CAIRO
From The Economist print edition

A coup-maker becomes a civilian president



ALMOST a year after General Muhammad Ould Abdelaziz took power at the head of a military junta, he has stripped off his uniform and got himself elected as Mauritania's civilian president. Various governments and international bodies, led by the African Union (AU), at first denounced his coup. Now they seem likely to welcome Mauritania fully back into the community of democracies.

Mr Abdelaziz won nearly 53% of the votes cast in the first round of an election on July 18th, forgoing the need for a run-off. His main rival, Messaoud Ould Boulkheir, who had been the parliament's speaker, strongly opposing last year's coup, got only 16%, ahead of three other candidates. He called Mr Abdelaziz's victory an "electoral coup d'état" and said there had been massive fraud. But observers from the AU, the Arab League (of which Mauritania is a member) and the International Francophone Organisation endorsed the result.

Once Mauritania's Constitutional Court approves, the old regime in new clothes under the original coup-maker is expected to repair its relations with the AU, the European Union (EU) and the United States, as well as the World Bank and the IMF. All these governments and bodies will argue that, thanks to the poll, they have not, in fact, endorsed a coup.

Mauritania has had a chequered history. One of the world's poorest countries, it has been plagued by drought, locusts, and a lot of military coups. Maaouya Ould Sid'Ahmed Taya ran the show from 1984-2005. In 2007 the country held its first fully democratic presidential poll. But a year later its current leader seized power from Sidi Muhammad Ould Sheikh Abdellahi, who had been recognised as the country's legitimate leader after a genuine election victory only a year before.

As a result, development aid and a number of trade deals had been frozen and Mauritania's membership of the AU suspended. General Abdelaziz, as he then was, found himself facing threats of sanctions from the AU and the EU unless "constitutional order" returned. Despite Libya's and Qatar's mediating efforts, the main opposition rejected the general's proposal for a fresh election. In the end, Senegal's president, Abdoulaye Wade, brokered a deal. Mr Abdellahi formally resigned, a transitional unity government briefly took shape, and the coup-maker got his democratic mandate. But it is not yet clear if ordinary Mauritanians think they have got a decent deal.

Detainees in Saudi Arabia

An awful lot

Jul 23rd 2009
From The Economist print edition

A human-rights report takes the kingdom to task

SINCE the attacks on New York's twin towers in 2001, "the Saudi authorities have imposed a range of counter-terrorism measures that have worsened what was already a dire human-rights situation." So says Amnesty International, a London-based human-rights lobby. Its latest report follows an official Saudi announcement earlier this month that 330 people had been convicted on charges of terrorism, with sentences ranging from fines to (in one case) death by beheading, with just seven defendants acquitted; of those convicted, 42 would never be freed without "repenting" before a judge. Some 660 people are still in the dock, undergoing a trial that began in March. Another 2,000-plus are reckoned to be behind bars; when or whether they will be tried is not yet clear.

Between 2003 and 2007, some 9,000 people have been held on suspicion of terrorism at one time or another in Saudi Arabia; around 6,000 are thought to have been freed without trial. A large minority of those detained are from Egypt, Sudan, Syria and Yemen. Quite a number of them, says Amnesty, are civil-rights campaigners who have plainly had nothing to do with terrorism or *jihad*.

Repent or be damned

After being hit by a string of jihadist bombings and attacks between 2003 and 2006, the Saudi security service seems, for the time being, to have contained the violent opposition. But the number of people behind bars suggests that the well of discontent will not easily be drained. The authorities are particularly pleased with a "re-education" programme under which some 1,500 extreme Islamists are said to have been persuaded to mend their ways and have been released back into the community. Scores of them, however, are known to have reverted to prior form, with some making their way to back to jihadist strongholds in such places as Yemen, to the lawless south of the kingdom.

This apparent hardening of the authorities' approach to suspected opposition, whether violent or not, comes despite a number of notable if tentative steps taken since 2001 to modernise the Saudi judicial system. A "code of law practice" has been enacted, along with a "law on criminal procedures" which is supposed to limit to six months the period of detention that can elapse before a trial must be held; all defendants should, in theory, have access to legal assistance. Last year it was reported that a law had been drafted to provide for the setting up of independent associations, though there is no hint that political parties will be allowed. But no word has been heard of the law being passed.

Before the present trials began, the Saudi foreign minister said they would be in public, defendants would have "full guarantees" (presumed to include their own lawyers) and local human-rights outfits would monitor the proceedings. None of this has happened. The trials have been in secret. No defendant has even been publicly named. Human Rights Watch, a New York-based lobby that has had marginally better access to the Saudi authorities, was refused permission to attend. Amnesty has never been allowed into the country. At this rate it never will be.

Egypt after Hosni Mubarak

Put a proper procedure in place

Jul 23rd 2009 | CAIRO
From The Economist print edition

The president's ill-health and refusal to retire is bad for everyone's nerves

AFP



I'm not going yet

THE question of Hosni Mubarak's succession is once again cropping up with increasing regularity as whispers of the president's ill-health spread. It was widely rumoured that, shocked by the death of his favourite grandson from illness in May, Mr Mubarak had a mild stroke. He was not seen in public for a week. When he reappeared, he looked frailer. When Barack Obama came to Cairo a fortnight later to deliver his momentous speech to the Muslim world, Egypt's 81-year-old president failed to turn up. More recently, however, he has made an effort to appear at carefully orchestrated public outings. This week he was hobnobbing with President Nicolas Sarkozy in Paris.

There is no clear succession, yet the issue has nagged Egyptians (and foreigners who watch the Arab world's most populous country, 80m-strong) for a good decade. After heading the air force, Mr Mubarak became vice-president in 1975, then succeeded to the top job after Anwar Sadat was assassinated by Muslim fundamentalists after making peace with Israel. Since then, he has refused to drop any hint about the succession, presumably because he thinks that by doing so he would set off an ugly power struggle that could lead to his own speedy retirement.

President Mubarak has never appointed a vice-president, which some constitutional lawyers deem illegal. In the case of his death or permanent incapacity, Parliament's speaker becomes an interim president for up to 60 days but cannot then run for president. If the speaker is for some reason unavailable, the chairman of the Constitutional Council takes the interim presidency under the same terms. The constitution cannot be changed nor the government dismissed during this period.

For four of his five six-year terms, Mr Mubarak has been nominated by Parliament as the sole candidate, then confirmed in a popular referendum. But in 2005, under American pressure, Mr Mubarak brought in a constitutional amendment to let a multiplicity of candidates run for president in direct elections, though they had to be put forward by legally recognised political parties. Official results gave him a laughable 89% of the vote against nearly 8% for his main challenger, Ayman Nour, who was later sentenced to five years in prison on dubious fraud charges.

The names of the favourites to succeed Mr Mubarak have been bandied about for years, though neither of the two front-runners has ever openly said he wanted the top job. Mr Mubarak's son Gamal, who runs the ruling National Democratic Party (NDP), has won the support of businessmen for promoting economic reforms since 2004. The other main contender is General Omar Suleiman, who has run the intelligence service since 1991. Involved in every regional conundrum, such as efforts to reunite the Palestinians and bring them to a peace deal with Israel, he is generally admired by his counterparts. Other names are occasionally aired, such as Mohamed ElBaradei, who since 1997 has headed the International Atomic Energy Agency, the UN's nuclear watchdog; he is due to step down in November. Another is Amr Moussa, a popular former foreign minister of Egypt who since 2001 has run the 22-member Arab League.

But in the end it usually comes down to Gamal versus Omar. Egyptians are divided over who is likely to prevail and who would run the country better. The younger Mubarak, at 46, has established himself as heir apparent by drawing new blood into the NDP and backing technocratic reform. A former investment banker, he is more relaxed than his father at smart gatherings such as the annual forum in Davos. He surrounds himself with some of Egypt's richest people. Constitutional amendments passed in 2007 restrict eligibility for presidential elections. As a result, some say that no other candidate or political force will be able to oppose him as the ruling party's likely candidate.

But critics say Mr Mubarak junior lacks a popular touch and that an inheritance of power would not be welcomed by most Egyptians or by the armed forces—and they have been the regime's backbone since the Free Officers overthrew the monarchy in 1952. "If [President] Mubarak disappears, there will be a political vacuum," says Osama al-Ghazali Harb, a former friend of the younger Mubarak who has become an opposition politician and prominent commentator. "The military is the only institution able to fill that vacuum, and there will be tanks on the street."

In this view, General Suleiman, aged 73, would become president in a constitutional coup, which Mr Harb hopes might then prompt a transition to more democratic politics. But Mr Suleiman's own relations with senior military men are not always clear. Military politics is murky. Succession in each Arab state seems to follow its own rules and, after Mr Mubarak dies, a power-grabbing junta cannot be ruled out.

The succession debate has spilled into Facebook and Twitter, where young Egyptians row over the candidates' merits. Even the Muslim Brotherhood, the only strong political force outside the regime's control, is divided over whether it should stand fiercely against the inheritance of power.

The uncertainty is again making a lot of Egyptians nervous. Speculation is rising that the older Mubarak may step down before the next presidential election in 2011. Every political development in the country, however banal, tends to be seen in the light of the succession. It hinders the steady running of the country, and hampers a healthy debate, even within the confines of the ruling establishment. It is bad for Egypt.

Iran's holiest city

Qom all ye faithful

Jul 23rd 2009 | QOM
From The Economist print edition

Muted dissent in Iran's holiest city

AT FIRST glance the holy city of Qom, Iran's pre-eminent place of Shia scholarship, still feels pretty conservative. Almost all its women are covered from head to toe. Mullahs saunter by in flowing brown robes. The seminaries are packed with earnest young students, steeped in the values of the Islamic Revolution.

Moreover, the city is home to many of the *baseej* militiamen who have beaten and killed demonstrators in Tehran, 160km (100 miles) to the north. No demonstrations have taken place in Qom or nearby villages since the disputed presidential election of June 12th. "We can't do anything," says a jobless 26-year-old university graduate. Like many of his friends, he did not bother to vote, though he complains that the government "isn't working". Since the poll, security has tightened. Foreigners are routinely held for questioning. Locals say there are informers round every corner. Unlicensed television satellite dishes have been confiscated. Codes banning unmarried couples from consorting in public are rigorously upheld.

Yet even here, you meet people who sympathise with the clutch of Qom's senior clergy who have spoken out against the ruling establishment. The discontent is aired quietly, behind closed doors. Under a veneer of calm and unity, you detect splits: between the generations; between the pious and the more secular; between those who listen or have access to the Western media and those who rely on state news.

Qom has been infiltrated by the same forces of modernisation that have transformed other big cities. In the shadow of Qom's gold-domed Holy Shrine, second in importance in Iran only to the one in Meshed, shops hawk garish women's clothes; in the past, it was illegal to sell even T-shirts. Drugs and alcohol can be found easily if you know where to look. Qom even has its own well-known red-light district, where pious mullahs can get licences to be married just for a few hours or a day to a pretty woman in a custom that is close to abetting prostitution.

Still, many young Qomsters feel suffocated—and head north to breathe more freely and to look for work in Tehran. The strength is sapped out of any fledgling open opposition. In any case, liberalism in Qom is relative. Most supporters of Mir Hosein Mousavi, the thwarted presidential contender, still express respect for the controversial incumbent, Mahmoud Ahmadinejad, because the country's supreme leader, Ayatollah Ali Khamenei, has thrown his weight behind him. "Imam Khamenei is so great," says a local teacher. "I trust him completely, and if he says President Ahmadinejad has been doing a good job, then I believe him."

By contrast, in many other places, especially in the northern suburbs of Tehran, many Iranians lambast Mr Khamenei himself for the crackdown against people publicly disputing the election's official result. In Qom, no one, it seems, openly questions his authority. Mullahs in the city's many mosques loudly extol his and the government's view. At Friday prayers, ayatollahs rail against the supposed influence of the West in Iran's affairs and castigate America for its evil deeds.

At a 1,400-year-old mosque hidden in a warren of alleys, worshippers rush to the regime's defence. "Our current problems are all because of foreign agents like the BBC," says a 60-year-old veteran of the Iran-Iraq war. "The protesters have no right to demonstrate. They are criminal rioters."

The fervour of such worshippers is intense. Supporters of Mr Mousavi had the nerve to pepper the bazaar with his picture. But Mr Ahmadinejad's people soon defaced the posters, in one case knocking a hole in the wall where Mr Mousavi's smiling face had been displayed. Those in Qom who would like to protest are pinning their hopes on like-minded comrades in Tehran keeping up their defiance.

Israel and Palestine

Co-operation in the ether

Jul 23rd 2009 | JERUSALEM
From The Economist print edition

Hope for economic co-operation across the barrier

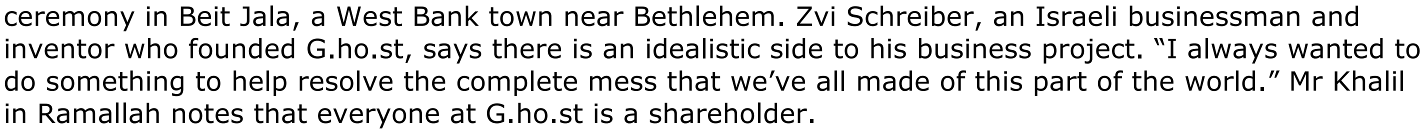
Illustration by Claudio Munoz



ALTHOUGH Israeli and Palestinian politicians have yet to resume negotiations over land and peace, some software engineers and programmers from both communities are working together in the clouds high above the security fence that divides them on the ground. The engineers and scientists building up a company called G.ho.st (global hosted operating system) work separately in their offices in Jerusalem and Ramallah, the Palestinians' administrative capital on the West Bank.

When they need to talk to each other, it is either via the ether "or we meet at a gas station on the Jerusalem-Jericho road," says Elias Khalil, G.ho.st's chief engineer, a Palestinian. "It's accessible to both sides and there's a little café. But it's in the middle of the desert." In fact, it is off a road that slices through the West Bank but, unlike several such arterial routes, it is one where Palestinians and Israelis can consort with each other—which is quite a rarity.

After three years as a relatively simple "alpha" site, with 200,000 customers logging on in 20 languages, G.ho.st has now proclaimed itself "beta"—a step closer to perfection—at a ceremony in Beit Jala, a West Bank town near Bethlehem. Zvi Schreiber, an Israeli businessman and inventor who founded G.ho.st, says there is an idealistic side to his business project. "I always wanted to do something to help resolve the complete mess that we've all made of this part of the world." Mr Khalil in Ramallah notes that everyone at G.ho.st is a shareholder.



The new outfit provides its (free) subscribers with an entire virtual filing system and desktop, which they can get into from any browser-equipped computer or mobile phone anywhere. Originally, Mr Schreiber says, he was thinking of poor communities where computers are rare. But most of G.ho.st's subscribers are from the richer parts of the world, and often have too many computers for their own comfort. "No need to e-mail your half-finished files to yourself any more," he says. "And why have the hassle of protecting your files? We'll keep them safer for you. You don't keep your money in a piggy bank."

The material is kept, in fact, by Amazon Web Services in computers in America. G.ho.st will make its money, Mr Schreiber is hoping, from premium subscriptions that will provide more storage and security, and from selling the services of giant companies such as Amazon, Google and Yahoo.

Turkish foreign policy

Dreams from their fathers

Jul 23rd 2009 | ANKARA
From The Economist print edition

Turkey's canny foreign minister seeks to pursue delicate diplomacy all around

Illustration by Peter Schrank



WHEN the official result of Iran's contested presidential election was announced last month, Turkey was one of the first countries to congratulate Mahmoud Ahmadinejad. Set against the repression (and deaths) of Iranian protesters in the streets, this raised eyebrows in Europe and America. It even provoked the tired old question of whether Turkey may be turning its back on the West.

"People see only one side of this story," complains Ahmet Davutoglu, Turkey's foreign minister, in an interview. He does not elaborate. But Turkey's friendship with the Islamic republic has also proved useful to the West. Its behind-the-scenes mediation was instrumental in securing the recent release of British embassy staff in Tehran. And it can play both ways. Five Iranian diplomats detained by the Americans in Iraq in 2007 were freed earlier this month at Turkey's urging.

The ease with which Turkey juggles different worlds, be they Arab or Jewish, Muslim or European, prompted Hillary Clinton to call it an "emerging global power". Its strong relations with Israel matter to both countries, as became clear when they cooled during the invasion of Gaza in January. The Turks have just had a high-profile spat with China over its treatment of Xinjiang's Uighurs, whom they regard as kinsmen. It was understandable that one of Barack Obama's first presidential visits to a foreign country was to Turkey.

Some credit is due to Mr Davutoglu, who was a foreign-policy adviser to the prime minister, Recep Tayyip Erdogan, for seven years before becoming foreign minister in May. This spry former academic is seen as the architect of Turkey's soft power, which blends realpolitik with a fierce pride. A pious Muslim with a moralistic bent, Mr Davutoglu has been among the most influential foreign ministers in the history of the Turkish republic.

His approach rests on two pillars. One is to have "zero problems" with the neighbours, many of them troubled or troublesome. The other is "strategic depth". This calls for a Turkish zone of political, economic and cultural influence, primarily among neighbours (many of them former Ottoman dominions) in the Balkans, the south Caucasus and the Middle East.

None of this detracts from Turkey's determination to join the European Union. Rather, it enhances its appeal as a member, says Mr Davutoglu. He seems unfazed by the hostile noises from France and Germany. Both Nicolas Sarkozy and Angela Merkel are lobbying for a "privileged partnership" instead of full membership for Turkey. Mr Davutoglu suggests that they are merely playing to their respective electorates. "Instead of complaining, of being angry, we should work together," he says. For Turkey that means reviving the flagging reform process that won it the opening of EU membership talks in 2005. Mr Davutoglu is hopeful, for example, that the Greek Orthodox seminary on the island of Halki off Istanbul will soon be reopened.

But EU diplomats say none of this will let Turkey off the hook over Cyprus. Mr Davutoglu agrees that decades-old peace talks between Turkish- and Greek-Cypriot leaders should not be open-ended. A deal really needs to be struck by the end of this year. For that to happen the EU and America must tell the Greek-Cypriots to get serious (though, as EU members already, they have little incentive to help). A settlement would avert the possible train wreck in Turkey's relations with the EU that might otherwise come in December. In theory Turkey has until then to open air- and seaports to the Greek-Cypriots, but it refuses to do this until EU trade restrictions on Turkish-controlled north Cyprus are lifted.

Might France and Turkey's other enemies use this as an excuse to freeze the EU membership talks altogether (eight chapters have already been suspended)? Turkish leaders like to believe that Europe needs Turkey more than Turkey needs Europe. It has become even more crucial as a potential transit route for Europe-bound natural gas from energy-rich Azerbaijan and Central Asia, as well as from Iraq (and eventually Iran). Mr Davutoglu points proudly to the recent signing of an agreement between Turkey, Bulgaria, Romania, Hungary and Austria on the Nabucco pipeline that is meant to carry gas through these countries, reducing Europe's dependence on Russia.

Yet some say that Turkey is overplaying its hand. Its energy dreams are tightly linked to its ethnic cousins in Azerbaijan. Relations between these Turkic allies took a dive in April when Turkey unveiled a draft agreement to establish diplomatic ties and reopen its border with Armenia. In a dramatic shift, Turkey even dropped its long-running precondition that Armenia must withdraw from the territories that it occupied in the 1990s after its war with Azerbaijan over the mainly Armenian enclave of Nagorno-Karabakh.

An infuriated Azerbaijan promptly threatened to turn to Russia. In June it signed a deal to sell gas to the Russians from 2010 onwards. So Turkey did another volte-face. Mr Erdogan declared that friendship with Armenia was no longer possible unless it withdrew from Nagorno-Karabakh. Mr Davutoglu insists that Turkey wants peace with Armenia. But one Western diplomat says that "rapprochement with Armenia is on its last legs."

This has raised the spectre of a row with Turkey's most powerful ally, America. Armenian-Americans want Mr Obama to honour his election pledge to insist that the massacre by Ottoman forces of more than a million of their ancestors in 1915 was genocide. In a fudge in April Mr Obama said that he had not changed his views on the matter; yet he spoke only of the Medz Yeghern ("great calamity" in Armenian). He did not want to torpedo Turkish-Armenian rapprochement by using the G-word.

Turkey's strategic location had once again proven decisive. As American forces withdraw from Iraq, Turkey is seeking to avert a looming conflict between the Arabs and the Kurds, especially over the disputed city of Kirkuk. Turkey urged Iraq's Sunnis not to boycott elections in 2005. Mr Davutoglu is again lobbying to ensure that all Iraqi groups take part in the parliamentary election in January 2010. "We have excellent relations with the United States at every level," he says. And, notes a Western official, "when it comes to Turkey and Armenia, Turkey wins every time."

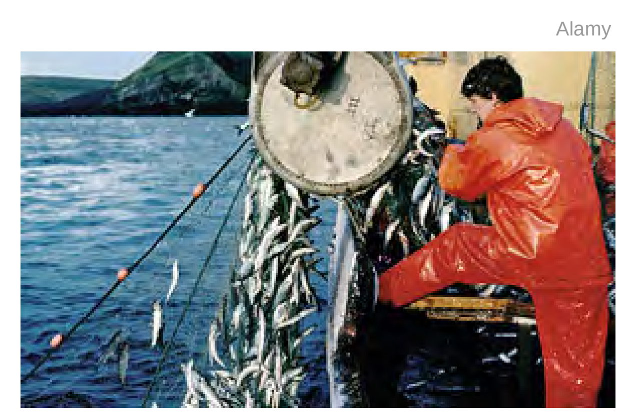
Iceland and the European Union

All things to Althingi

Jul 23rd 2009 | REYKJAVIK
From The Economist print edition

Three big obstacles stand in the way of Iceland's EU membership

Alamy



The fish may not enjoy the European Union

ON JULY 16th Iceland's Althingi, or parliament, voted by 33 to 28 to apply to join the European Union. This is the biggest step taken by the Social Democrat/Left Green coalition led by Johanna Sigurdardottir since it was formed in May. But in truth the path to both EU membership and the euro will be rocky and uncertain.

There is heady talk of Iceland's application being "fast-tracked". The country has been an associate member of the European Economic Area (EEA) since 1994, so it already meets most EU membership requirements. If all goes well, say optimists, Iceland's application could catch up with Croatia's, leading to membership in late 2012 or early 2013.

Yet three obstacles loom ahead. First is the EU's notorious common fisheries policy, which would give other EU members access to Iceland's fish. There are get-outs for traditional fishing grounds, but they may be hard to invoke. Students of past "cod wars" with Britain will be aware of Icelanders' determination to protect national assets, but given that it is the Icelanders who are *demandeurs* they may have to compromise.

The second problem is the economy, the shocking state of which has forced the decision to apply to the EU. The budget deficit is running at 13% of GDP; public debt is well over 100%. The Icelandic krona has lost half its value against the euro since January 2008. Iceland's credit rating is close to junk. All this will make it hard to meet the Maastricht criteria for joining the euro. This week some German politicians muttered that Iceland should not get in until it sorted out its economy. Dutch ministers also linked Iceland's bid to the Althingi's approval of a bank-rescue plan (see article).

Third and most awkward, a referendum will have to approve Iceland's EU membership. Yet a recent poll shows popular support dropping from 58% last October to only 38% today. Many Icelanders see the EU rules they had to adopt in the EEA as one cause of the economic collapse; most dislike the fisheries policy. Critics of EU membership, led by the Independence Party, will find it easy to stir opposition. Iceland's cousins in Norway have twice negotiated to join, only for the voters to say no. There is every risk that Iceland may follow suit.

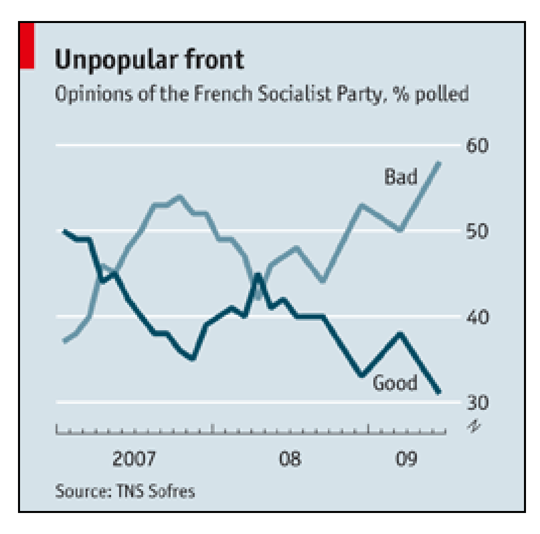


Struggling French Socialists

Left behind

Jul 23rd 2009 | PARIS
From The Economist print edition

It’s grim on the gauche



FRENCH Socialists are going on holiday in a state of disarray. They are to meet at the end of August for their summer school, an event meant to offer calm reflection amid shirtsleeves and platters of *fruits de mer*. But this year’s school will be fraught, for some of the party’s own leaders have taken to denouncing it as lifeless, rudderless and ready to be buried.

Were such accusations merely the dark mutterings of has-been grandees, they might not matter. But some have come from ambitious younger figures, despairing at their elders’ inability to stop the rot. The latest is Manuel Valls, a young deputy and mayor of Evry, near Paris, who fancies himself as a presidential candidate in 2012. After the Socialists took only 16.5% of the vote in the European election in June, Mr Valls began laying into the party and its leader, Martine Aubry, charging her with failure to face up to political and ideological defeat. The Socialist Party, he said, needs new faces, new thinking, and a new name—without the word “socialist”.

An incensed Ms Aubry replied, unusually, with a public letter of reprimand. “One does not belong to a party to use it, but to serve it,” she wrote, accusing Mr Valls of shameless self-promotion. “My dear Manuel,” she went on, in icily polite prose, either you stop or you quit the party. Undeterred, Mr Valls wrote a public riposte, accusing the party leader of disinformation. She was in denial about electoral failure, he claimed, and stuck with outdated notions of the left. “Whatever the price to pay, I will not be the silent accomplice in this blindness,” he declared.

Other figures on the left joined in. When Bernard-Henri Lévy, a media-friendly intellectual, was asked “Will the Socialist Party die?”, he responded “No. It is dead.” Jack Lang, a former culture minister, called the party “a barren tree”. Arnaud Montebourg, another young deputy, said it had “fallen into formaldehyde”. Deputies, party hacks, councillors, rank-and-file members: all are tearing into each other. Almost the only leader to stand up for Ms Aubry was Ségolène Royal, the defeated Socialist presidential candidate in 2007 and hitherto a fierce rival.

What to make of this cacophony? In many ways, Mr Valls is right. The Socialist Party has never made peace with the market economy in the way that other European parties of the left managed to after the fall of communism. Many of its policies—higher wages, tighter rules on factory closures—and much of its rhetoric belong to a pre-globalisation age. Ms Aubry, a former labour minister, is famous as the architect of the 35-hour working week. Today, the party badly needs to appeal to those who accept the global economy but want its edges softened. Yet it has never dared to shift closer to social democracy, partly for fear of ceding too much ground to a ragbag of parties—greens, communists, anti-capitalists and others—to its own left.

Mr Valls wants the presidential primaries for 2012 to begin as early as next year. The chosen candidate would, he argues, then have the legitimacy to remodel the party. But this is not how Ms Aubry and the traditionalists around her want things. She favours the present procedure, whereby a programme is stitched together by consensus, a candidate is elected by party members only a few months before the presidential election—and he or she is expected to stick to that manifesto.

Squabbling among aspirant leaders has been a feature of the French Socialist Party ever since the death of François Mitterrand in 1996. Many of those still dreaming of the presidency—Laurent Fabius, Dominique Strauss-Kahn, Ms Royal, Ms Aubry—served in government under him. Despite the challenge from a newer generation, who are neither part of the Mitterrand era nor graduates of France’s elite schools, these

pachyderms seem as unwilling as ever to loosen their grip and take the party into the 21st century.

Spain and Gibraltar

Rocky horror show

Jul 23rd 2009 | MADRID
From The Economist print edition

An historic visit, but the same arguments over sovereignty

IT IS famous for Barbary apes, cheap shops and stunning views of Europe and Africa. Until this week, however, these attractions had failed to lure any Spanish government minister to the British territory of Gibraltar for over 300 years (Gibraltar was captured in 1704 and ceded to Britain under the Treaty of Utrecht in 1713). So when Spain's foreign minister, Miguel Ángel Moratinos, drove across the border on July 21st, it was an historic moment. Yet there were few fireworks. He did not try to plant a Spanish flag atop the limestone outcrop that gives Gibraltar its nickname of "the Rock". Nor did he renounce a centuries-old battle to regain sovereignty.

Spanish conservatives accused him of treason. "For the dignity of Spain, don't throw 300 years of determination overboard," read one protest banner. On their side of the border Gibraltarians hung Union flags from balconies to remind him of their loyalty. Yet sovereignty was the great unmentionable at his meeting with the British foreign secretary, David Miliband, and Gibraltar's chief minister, Peter Caruana. For once, Britain and Spain were not grabbing at each other's throats.

Mr Moratinos's visit was part of a new entente over the Rock. Where previous governments used sticks, Spain's Socialist prime minister, José Luis Rodríguez Zapatero, is keener on carrots. A three-year-old agreement allows Britain, Spain and Gibraltar to discuss mutual problems without backing away from their views on sovereignty. "We have been beating ourselves against the rock of incomprehension for too many years," said Mr Moratinos. Spain still wants to recover Gibraltar, he insisted. It just thinks that dialogue and co-operation are better than threats.

The new approach reflects the reality of life in and around Gibraltar. Apart from some old-style British architecture, red pillar-boxes and pubs serving tepid British beer, Mr Moratinos probably felt at home. Most Gibraltarians speak fluent Spanish. Some prefer it to English. They even speak with a lisping accent similar to that of their neighbours in the Spanish town of La Línea de la Concepción.

Much has changed since the border, slammed shut by Franco in 1969, reopened in 1985. Gibraltar is no longer a big British naval base. A booming economy employs a lot of Spaniards: as many as 3,000 pour across the border every day. Even some of the 29,000 native Gibraltarians now live in Spain and commute to work on the crowded two-and-a-half square miles (6.5 square km) of the Rock.

The entente, which has brought better communications with Spain, has helped to fuel the boom. Gibraltar has been registering Chinese-style growth. Even the housing market is holding up, unlike those in Spain and Britain. Offshore finance, internet gambling, shipping, tourism and a weak pound all help. And the benefits spill into one of Spain's poorest regions.

Later this year the government-run Cervantes Institute, which promotes Spanish culture around the world, will open a branch on the Rock. That will help fill Gibraltarians' minds with Spanish thought. Their hearts, however, remain obstinately British. Referendums have shown that almost all want to stay that way.

Germany and Europe

Constitutional concerns

Jul 23rd 2009 | BERLIN
From The Economist print edition

The political rows over a new euro-law demanded by the Constitutional Court

THE reverberations from last month's ruling by Germany's Constitutional Court on the European Union's Lisbon treaty seem to be growing. In effect, the court said that the EU is not democratic enough to support more integration and told Germany, the biggest EU member, to hit the pause button.

The court asked the German parliament to pass a new law to give itself more say over EU affairs. It added that, even if national legislators duly become more active, there are limits to the powers that they can cede to Europe. The EU is not a democratic state and the European Parliament is not a proper legislature, it said. Germany must therefore retain the power to shape "citizens' circumstances of life" in such areas as criminal law, taxation, education and religion.

With a federal election due on September 27th, the court's demand for a new law was bound to cause mischief. Chancellor Angela Merkel, as the main architect of the Lisbon treaty, wants swift approval of a law that does not hamstring the government. The treaty is supposed to make the EU function more smoothly, she claims. But the Christian Social Union (CSU), the Bavarian wing of Ms Merkel's Christian Democratic Union (CDU), has seized on the proposed new law to pander to Eurosceptic voters. It has demanded that big EU decisions, including the admission of new members, be put to referendums; suggested that the next European Commission should not include an enlargement commissioner; and called for the introduction of a system of "integration control" by the Constitutional Court.

Ms Merkel will surely slap down the CSU's wilder ideas. But even pro-Europeans have embraced the court's call to assume more responsibility. Markus Löning of the liberal Free Democrats thinks the Bundestag should weigh in not only on transfers of power but also on directives and the admission of new countries. Places like Austria and Finland give their parliaments more say without tying negotiators' hands, he notes. He complains that the German government "wants to make the new law as limited as possible".

It is certainly in a hurry. Germany wants to ratify Lisbon before Ireland's second referendum on October 2nd. That might encourage the reluctant Polish and Czech presidents to sign (see article). If the process drags into 2010, Lisbon's backers fear, a new Conservative government in Britain will withdraw its ratification and put the treaty to a referendum.

The court has a history of approving EU integration with reservations. But this time, in language reminiscent of 19th-century nationalism, it argued that "no uniform European people" could "express its majority will in a politically effective manner". The European Parliament, in which voters from small countries such as Malta have far more weight than Germans, is not up to the job. So the court wants to ensure that Germany does not surrender to the EU any of the core powers of a democratic state. By its ruling, the court sets itself up as final arbiter of further EU integration (and even of rulings by the European Court of Justice), argues Christian Calliess of the Free University in Berlin. That could threaten the EU's main function, to make and enforce European law.

Yet the court's defenders say that nothing in the judgment stops the EU from becoming a full-fledged democratic state. In the meantime, the court's robust defence of national sovereignty may make the EU more palatable to Eurosceptics everywhere. The court sugared its criticism by emphasising more than in earlier rulings the German constitution's "openness toward European law". That is why it wants to press "pause", not "rewind".

Poles, Czechs and the Lisbon treaty

The awkward squad

Jul 23rd 2009 | PRAGUE AND WARSAW
From The Economist print edition

Why the Polish and Czech presidents drag their feet over the Lisbon treaty

AFP



Klaus and Kaczynski, procrastinating presidents

AFTER being subject to commissars in Moscow, some east Europeans are twitchy about commissioners in Brussels. But that only partly explains the reluctance of two presidents, Poland's Lech Kaczynski and the Czech Republic's Vaclav Klaus, to sign the European Union's Lisbon treaty, which both countries' parliaments have ratified.

Both men are famously prickly and prone to nit-picking. Both frame their objections in the language of national sovereignty. Both hate to see Ireland bullied—it is being asked to vote again on Lisbon on October 2nd. Mr Kaczynski similarly disliked the sanctions briefly imposed by the EU on Austria when the right-wing Freedom Party was in government. Mr Klaus says the EU elite cannot accept dissenting views (when visiting European parliamentarians attacked his Euroscepticism he compared them to communist-style thought police).

But the differences are bigger than the similarities. Mr Kaczynski's opposition to Lisbon is about posturing not principle. He says publicly that he is merely waiting for the second Irish referendum before signing. Given that he helped to negotiate the treaty on Poland's behalf, it would be hard for him to demonise it as Mr Klaus does. Indeed, Mr Kaczynski, who worries about waxing Russian influence and a waning American presence, has described the EU as "a great thing".

The real reason for the Polish president's delay is a desire to annoy the government led by Donald Tusk's Civic Platform party. Mr Tusk defeated the government led by Law and Justice, headed by the president's twin, Jaroslaw Kaczynski, in 2007. Mr Tusk's emollient, pro-EU stance contrasts sharply with the Kaczynskis' abrasive style. A delay over Lisbon also allows the president to grandstand on the EU's "moral relativism" (meaning the incompatibility of its views of human rights with Polish social mores on homosexuality and the like).

Mr Klaus says he will get around to Lisbon only once everyone else has endorsed it. He will probably sign, but through gritted teeth. He would like a loose free-trade zone instead of what he sees as a nascent superstate. Unlike Mr Kaczynski, he is no Atlanticist; he gets on quite well with Russia. Also unlike Mr Kaczynski, he has the excuse that, though Lisbon passed the Czech parliament in May, it faces a court challenge by politicians from the Civic Democratic party that Mr Klaus once led.

Euroscepticism has only limited appeal in eastern Europe. The EU is widely seen as a guarantor of stability and progress: generous in paying for modernisation of public services and infrastructure and the best hope for fighting corruption. Lisbon is widely backed not on its merits but because its failure would risk

pushing the EU into yet another interminable internal debate.

Charlemagne

Battle of the big beasts

Jul 23rd 2009
From The Economist print edition

Mutual suspicions and national interests underlie European rows over financial regulation

Illustration by Peter Schrank



IN THE European Union it is often tempting to reduce policy debates to clashes between old rivals like France, Britain and Germany. It is not only journalists who are guilty. A few years ago, it is said, Britain's permanent EU representation invited diplomats to craft a mission statement for their work. One acclaimed (if unsuccessful) submission was: "Sticking it to the French, every day."

Just occasionally, policy fights really do pit the big beasts against one another, exposing deep rifts of mutual suspicion and incomprehension. The EU is on the brink of just such a battle now. The three governments have long disagreed over how to regulate finance. In the past few weeks, the name-calling has become both personal and public.

This fight has deep roots. The German chancellor, Angela Merkel and the French president, Nicolas Sarkozy, fulminated about hedge funds and private-equity firms long before the credit crunch. In Germany they were dubbed "locusts" as long ago as 2005 (in that year a British-based hedge fund engineered the dismissal of the bosses of the Deutsche Börse). Such attacks were always coded swipes at "Anglo-Saxon" capitalism. London accounts for 80% of hedge-fund assets managed in Europe.

There was nothing coded about a speech Mrs Merkel gave in Bavaria on July 17th. Germany would demand tough regulation at a G20 summit in Pittsburgh this autumn, she promised. "With us, dear friends, Wall Street or the City of London won't dictate again how money should be made, only to let others pick up the bill." Nor was Paul Myners, a British minister responsible for the City, much more subtle on July 7th, when he told hedge-fund and private-equity bosses that the EU's draft regulations needed "major surgery". Only 3% of European hedge-fund assets are managed from France, Lord Myners noted. He also suggested that it was easy for certain "European countries" to make political capital by demanding "intrusive regulation of an industry of which they have little or no direct experience."

Earlier this month, say officials, the French finance minister, Christine Lagarde, tried to stop the chairmanship of the European Parliament's committee on financial regulation going to a British MEP, Sharon Bowles. Ms Lagarde spoke to key MEPs about blocking Mrs Bowles, who is from the centrist Liberal Democrats. This particular French move failed, but many in the European Parliament still express outrage that an "Anglo-Saxon liberal" should have landed such a crucial chairmanship.

In this game, it seems, everyone suspects everyone. Ms Merkel, suggests one British official, appears moved by the moral belief that "what goes on in modern financial markets is sinful." Whenever France is this active, he adds, the obvious conclusion is that "naked French national interest" lies behind it, and specifically a desire to "rebalance" financial activity between Paris, Frankfurt and London. The British sniff protectionism in French demands for a total ban on non-EU funds selling to Europeans when those funds are based in spots with lighter regulation and taxation, such as the Cayman Islands.

How much does this mutual suspicion matter, sophisticates might ask? All the regulations will be amended in the EU's legislative mincer. And some of the bluster is just bluster. Germany has an election in September. Bashing foreign financiers is always popular in France. Both countries have big risk-taking banks. And some complaints by hedge funds in Britain are exaggerated, industry bosses admit: chunks of the draft EU regulation are inspired by British thinking. If there are elements the British dislike, that is partly their fault, senior Eurocrats add. When the hedge-fund rules were being drafted earlier this year, a distracted British government "was behind the ball" and did not lobby enough.

True enough. Yet distrust matters all the same. Final decisions on EU financial regulations will be taken by qualified-majority vote, so Britain will not have a veto. Empathy is useful in negotiations, but is lacking. Yes, Paris and Frankfurt would love to grab business from London. But French officials also come from a different culture, in which "caveat emptor" is seen as an abdication of official responsibility. Many Germans think firms should continue to rely more on banks than capital markets.

Those evil speculators

France has also become stuck in a rhetorical vision of hedge funds and private equity as "aggressive" gangs of "speculators" (to quote Mr Sarkozy), bent on snapping up firms, sacking workers and creaming off profits. The French and Germans should talk to a country like Sweden, the current holder of the EU presidency. In Sweden private equity often steps in when a family firm lacks the ambition or capital to expand, said Mats Odell, the Swedish financial-markets minister, recently. Mr Odell joked that Swedish union bosses should tour Europe, to share their view that firms owned by private equity attract better managers and take a longer-term view than do listed ones.

Worst, amid all the din of national suspicion, there is precious little debate about the downside of reining in financial markets. Europe's ageing population must fund future pensions somehow, notes Mrs Bowles, France's *bête noire*. There is a reason why some big pension funds already invest in hedge funds: they are under pressure to deliver higher yields. If European markets cannot offer attractive yields to pension funds, the state will have a social-security problem, and capital will flee. "It is not a question of capital leaving London for Paris or Frankfurt. It will fly out of Europe," argues Mrs Bowles.

This could be a useful policy debate. How much growth can Europe afford to sacrifice, in return for shunning risk? But such a discussion requires the big beasts of Europe to trust each other. Right now, that seems a vain hope.

Economist.com/blogs/charlemagne

Local newspapers in peril

The town without news

Jul 23rd 2009 | BEDWORTH
From The Economist print edition

As local newspapers collapse, information is finding new ways to reach people. Not all are high-tech

Illustration by David Simonds



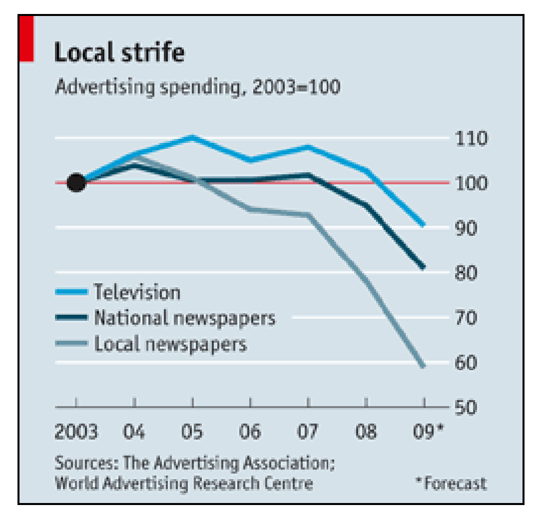
WHAT happens when a place loses its newspaper? Most of the 80 or so local papers that have closed in Britain since the beginning of last year were the second- or third-strongest publications in their markets. But the weekly *Bedworth Echo*, which published its last issue on July 10th, was the only paper dedicated to the town's news. A small former mining settlement in the Midlands, Bedworth also lacks a radio station. Although it will still be covered by newspapers focused on its bigger neighbours, it is now a town without news.

It will not be the last. With a few exceptions (see article) local newspapers are declining quickly. Trinity Mirror, which owned the *Echo*, shut 27 local newspapers last year and has already closed 22 this year. The main reason more local papers have not collapsed, says Paul Zwillenberg of OC&C, a consultancy, is that they were cushioned by large operating margins. Many have gone from annual profits of up to 30% to negligible earnings. As they tip into loss, the trickle of closures is likely to become a torrent. Enders Analysis, a media consultancy, reckons a third to a half may go in the next five years.

An advertising slump has hit local newspapers much harder than national papers or other media (see chart). The growing reach of national brands like Rightmove and Auto Trader means that local papers have lost their grip on property and car advertising. Most painful has been the disappearance of job ads. Public-sector recruitment has shifted mostly to official websites in the past few years, and recession has eroded the rest. In July 1999 an edition of the *Echo* carried 17 pages of job advertisements. The final issue had one-fifth of one page.

As it declined, the *Echo* withdrew from its office in the middle of town and trimmed its coverage of local affairs. By the end it was hardly an effective watchdog. "We used to nearly write the stories for the journalists," says Richard Chattaway, a county councillor.

Not surprisingly, the newspaper's circulation more than halved between 2001 and 2008.



Something is nonetheless being lost with its departure. The *Echo* carried reports of school plays, notices of future meetings of the Korean war veterans' association, local sports results and other humble fare. It also reinforced a sense of community. Borough politics has generally revolved around assertions that Bedworth is receiving more, or less, public money than neighbouring Nuneaton, according to Bill Hancox, a councillor. It is not clear where the debate will carry on. The internet is undermining local newspapers much more effectively than it is supporting alternatives.

"This is a poor town, and not computer literate," says Anne Tippett of the Civic Hall, an arts centre. Bedworth has no prominent blog. Indeed, local politicians appear to be just coming around to e-mail as a means of mass communication. Even if online sources of local news existed, they would not reach many of those who relied on the local paper. The *Echo* was disproportionately read by skilled manual workers and by the middle-aged and old. In its final throes it reached just 15% of the town's 15- to 24-year-olds but 31% of people aged 45-54, reckons JICREG, a local-newspaper research group. Not, in short, the sort of people with Twitter accounts.

Claire Enders of Enders Analysis notes that the people who most need information about local goings-on are the immobile old and the poor, for whom the news that a local clinic is about to close can be vital. They are the people least likely to have access to broadband. As newspapers close, people will seek local news on television and radio, much of it supplied by the BBC. It will not be nearly as detailed.

Yet alternatives are emerging. As its newspaper declined, Bedworth's politicians worked to set up local residents' groups as a conduit for views and information. Their meetings are advertised by means of leaflets posted through people's doors. The Civic Hall too sends leaflets to 12,500 households, and hands out more at the annual carnival and on Bonfire Night. Now that the local paper is no more, Ms Tippett plans to do more of that. The local borough council delivers an increasingly professional-looking newsletter. So do local churches. Oddly, a problem that is high-tech in origin has strengthened a low-tech form of communication.

One person who hands out a lot of leaflets these days is Lynne Price, a local activist known affectionately as "Gobby Lynne". Yet she gets much of her information about planning proposals, crime and so on from the internet. This illustrates one effect of the digitisation of information. As newspapers weaken and die, most people probably become less informed about local affairs, but a few motivated folk grow extremely knowledgeable. Ms Price will miss the *Bedworth Echo*, but not as a source of news. It was, she says, a useful way of getting the word out.

To an extent, the problem of local news is generational—a result of the difficulty of adapting to new technology. As more newspapers fail, and the broadband generation ages and settles down, it is likely that online local-news outfits will strengthen. Intriguing experiments are already under way. In north-east England, Trinity Mirror has "Gazette Live", a mix of professional news and user-generated content, sorted by postcode. Associated Northcliffe Digital, an arm of the media group that runs the *Daily Mail* newspaper, is rolling out a string of town-oriented websites. Associated cleverly located the local gadflies and community chatterboxes—the "gobby" folk—and got them to contribute.

At the moment hyper-local sites tend to be filled with discussions of town fetes and the next music night at the village pub. It may be, says Roland Bryan of Associated, that this is the equivalent of small talk at a cocktail party, and that people will eventually get down to local politics. Or they may not. As local newspapers fail, we may learn that their real value was less as a check on politicians than simply as a forum for casual conversation—a place where a town can talk to itself.

Papers that prosper

True grit

Jul 23rd 2009
From The Economist print edition

Why some papers manage to stay alive and kicking

FOR all the woes of local newspapers across Britain, there are those that thrive. Among them are the *New Milton Advertiser* and the *Lymington Times.*

New Milton Advertiser



NEW MILTON ADVERTISER

FOREST DRIVERS FACE THREAT OF SPEED GUN BLITZ

Pedallers battle for grand prix glory

MP shocked at 'lack of support' for Afghan war

Police warning after attacks on women

Overgrazing fear as price of Forest ponies set to fall

SALE
Up to
50% OFF
Selected lines only – See prices marked

PATIO AWNINGS
DUTCH CANOPIES
WINDOW BLINDS
CONSERVATORY BLINDS
VELUX WINDOW BLINDS
K. L. UPHILL

Hold the front page

Located in a sleepy stretch of the south coast, with water on one side and the ponies and thatched roofs of the New Forest on the other, the picture-book towns of Lymington and New Milton attract more than their share of retired folk and visitors. The *Advertiser & Times*, as local people call the papers collectively, are black-and-white weekly broadsheets, with the same ads but slightly different editorial content. Nearly 22,000 copies all together are printed in-house on a secondhand 1950s litho-plate printing press each week. The style and values of the papers are every bit as traditional as their 88-year-old proprietor, Charles Curry, who still edits them.

Circulation has fallen marginally over the past year, which is put down to a contracting distribution network as newsagents go bust rather than to any waning of interest or income among the papers' readers. Advertising revenues have held up relatively well: only the property pages have waned appreciably, and income from these is tentatively rising again. The front pages carry small ads, as most newspapers did in the 1950s, but it is the attention to local news and cost control that has brought continuing success and profitability to the papers.

Similar practices underpin resilience elsewhere. Tindle Newspapers, which owns over 200 local papers, is Britain's tenth-largest local-news publisher. Like the *Advertiser & Times*, the group is still profitable despite the economic slump, and the resemblance goes further. The owner, Sir Ray Tindle, is an octogenarian who places great emphasis on reporting local news in an engaging way. The *Tenby Observer*, in Pembrokeshire, survives today mainly because he refocused it on Tenby and its doings after its previous owner had made it regional, renamed it the *West Wales Observer* and pushed it into bankruptcy.

These papers, and others like them, are successful because they retain the best characteristics of their past. They have low overheads and levels of debt. They cover the local news and politics which matter to people. They have a belief in themselves that, some say, results in high staff satisfaction and low employee turnover. And they are often in well-off areas where readers—holidaymakers and the retired—have time to read newspapers and are unlikely to be lured away by the internet.

Above all, their proprietor editors have the will to battle through. Sir Ray points out that he survived not just the second world war but also five previous recessions and the advent of new media. With this spirit, local papers have a better-than-average chance of surviving.

Financial reform

More to do

Jul 23rd 2009
From The Economist print edition

Banking reform should aim at those regulated, not just the regulator

"MR OSBORNE…has embarked on a half-baked plan of destruction," thundered a London banker in a letter to the *Financial Times*. Not all City folk have been so scathing. But plans to abolish the Financial Services Authority (FSA) announced by George Osborne, the Conservative shadow chancellor of the exchequer, on July 20th caused consternation among many of the regulated, as well as at the giant financial watchdog itself.

Britain, like most big countries, is in the throes of reassuring taxpayers that the excesses which led to a global and national financial crisis will not be allowed to repeat themselves. Most of the proposals concentrate on revamping the regulators rather than the regulated, perhaps because it is easier. Only one party—the Liberal Democrats under their spokesman on economic affairs, Vince Cable—is calling for a break-up of the banks themselves. Mr Osborne prefers to scrap the FSA, while Alistair Darling, the incumbent chancellor, proposed on July 8th that an *Über*-Council for Financial Stability, chaired by himself, sit atop financial regulation.

The Osborne plan is to give bank supervision back to the Bank of England and to add oversight of insurance firms. (The Bank of England supervised banks until 1998, when the FSA, set up by a Labour government, took over.) The rump of the FSA would then become a consumer-protection agency with some responsibility for ensuring competition in consumer credit, which today is handled by the Office of Fair Trading. Little mention is made of a big chunk of the FSA's current duties: oversight of the markets and securities trading. Those duties may be spun off into a third regulator, as they are in France, Italy and Spain. If Mr Osborne's party wins the next election, at the latest next June, then his plan is likely to become reality.

It means total upheaval at the FSA, although many will keep their jobs and simply reprint their business cards. It gives increased power to the Bank of England, though its decision-making would become more collegiate and less concentrated on the governor. Above all it addresses the need for a clear line of authority, allowing a single entity to foster macroeconomic stability and ensure that financial firms, individually or collectively, do not upset the applecart. An independent Financial Policy Committee would advise the central bank on measures to counter systemic risk, with its minutes made public. This is a real step forward, says Sir Andrew Large, a former serial regulator.

What it does not address is the problem, greatest in Britain and Switzerland, that the financial sector is increasingly dominated by a handful of banks too big and complex to be allowed to fail. The state has big stakes in two of them. Mr Osborne says an incoming Tory government would ask competition authorities to investigate this concentration. His plans stop short, as do Mr Darling's, of cutting big and dangerous banks down to manageable size.

Both men hope that added capital requirements, foisted on big firms by their supervisors, will make the cost of unwieldy size and over-risky behaviour prohibitive. But this puts a heavy responsibility on the regulator, which must identify and quantify the risks in order to levy the charges. This was the regulatory Achilles heel that led to the present crisis. How much better, laments a Bank of England veteran, was the "Willie Osborn test". Bankers wishing to do something "innovative" first had to explain it to Mr Osborn (no relation) in the supervision department. If he did not understand it, then it was too complex. FSA supervisors tried too hard to understand complexity (or assumed the bankers understood) rather than exercising their veto.

At what might be its 11th hour the FSA is beginning to make more of the right noises. Under its new boss, Adair Turner, it has been naming and shaming conduct-of-business offenders more actively and has threatened with severe punishment firms that are starting to offer dizzying pay packages. What matters is not how big the package is but whether it contains an incentive that might endanger the firm, the FSA holds; the size of bonuses, and whether they take too much of the cake, is for shareholders to decide, not

supervisors. All the signs are that, whichever big party forms the next government, Britain’s financial sector will be seen as too important to tamper with seriously.



Cricket in transition

The 75-year itch

Jul 23rd 2009
From The Economist print edition

The thrill of an English win over Australia masks big problems for Test cricket

Reuters



CRICKET can teach you many things—not least patience. England’s teams have needed plenty. This week, for the first time since 1934, they beat Australia, the old enemy, in a Test (five-day) match at Lord’s, the home of the game. Andrew (“Freddie”) Flintoff, pictured, produced a mighty bowling performance.

In England Test cricket seems alive and well. (And in Wales, which in cricket counts as English: Cardiff staged its first Test this month, before packed houses.) Elsewhere, though, it seems to be dying. Ever fewer spectators are turning up.

A surfeit of short Test series does not help—especially between poor teams (such as that just ended between Bangladesh and a second-string West Indian team). Even English supporters left lots of empty seats for two matches against the West Indies in May. But it also has much to do with the fact that too few people are keen to spend five days following a game that may not even yield a clear winner.

Interest in cricket, though, is far from dead. Twenty20, a version that takes about three and a half hours, has been a big success. This year’s World Cup, played in England, drew good crowds. The Indian Premier League (IPL), now two seasons old, has enjoyed healthy television ratings despite being staged in South Africa this year. Players like it too. The IPL pays handsomely, and short games are less demanding on the body. Mr Flintoff, who has been plagued by injury, is quitting Tests after the Australian series, but will still play Twenty20.

Lots of Twenty20 competitions are being floated—even in America. This month the United States of America Cricket Association said it had plans for a new tournament. That is not as daft as it sounds, and three hours will be more appealing to Americans than five days.

Cricket has a long history in America—played, it is said, at Valley Forge in 1778—though baseball left it behind long ago. These days there are plenty of expatriates (often Indians) playing, watching on TV and following online. America is the second-biggest market for Cricinfo, the sport’s leading website—ultimately owned, by the way, by Disney.

Posh journalists

Red tops and blue blood

Jul 23rd 2009
From The Economist print edition

How a working-class trade became well-to-do

Rex Features



Derek Jameson: East End boy makes good

IT WAS 1944 when Derek Jameson, an unqualified 14-year-old from an east London slum, boarded the number six bus to Fleet Street and got a job as a messenger-boy at Reuters. By 1977 he had become the editor of the *Daily Express*, the first of three national newspapers he would edit. Would such an ascent be possible these days? "I don't think I would get past the front door," Mr Jameson says.

Labour has spent much time and money trying to make tales such as Mr Jameson's more common. But Britain remains a socially immobile place: a father's income determines that of his son more than anywhere else in the OECD, a rich-country club. On July 21st the latest attempt to crack the problem was unveiled: a report by Alan Milburn, a former minister, concluding that access to the professions was increasingly restricted to the wealthy, and suggesting ways to tackle the problem.

Curiously, much press coverage of the report omitted its finding that one of the most restrictive upper-middle-class bastions was the media. The report compared the share of today's top professionals who went to private school with the figure 20 years earlier. Of all the fields (including law, academia, politics, medicine and business), only in journalism had the proportion risen, from 49% to 54%. Hacks born in 1958 grew up in families earning just 5.5% more than the average; those born in 1970 had parents earning 42.4% more.

How did a supposedly rough-and-ready trade become so posh? Low pay has helped: a local reporter might start on £13,000, which is easier for those with generous parents and no debt. Haphazard career progression allows the well-connected to wriggle in. Michael Grade, a TV bigwig who sat on Mr Milburn's panel, said it was common for people to be "grandfathered" into jobs by relatives.

That is not new, nor unique to the media. But training has changed too. "The burden has moved from employers to individuals," says Stephen Pearse of the National Union of Journalists (NUJ). Whereas Mr Jameson was taught the ropes at Reuters, today's apprentices pay their own way. Half of new entrants have postgraduate qualifications, which don't come cheap: a diploma at one popular media finishing-school costs £7,495. "In my day the idea that you could be taught how to be a journalist in a classroom was a joke," Mr Jameson says. Perhaps it still is, but the competition for jobs convinces many to pay up.

The second new hurdle is the unpaid internship. Mr Milburn's report highlighted work placements as a new rung on the career ladder that makes life hard for people who cannot afford to work for peanuts. Media internships seem to be especially exploitative: an NUJ survey last year found that eight out of ten interns had not been paid for work they had published, and a fifth said they had worked for more than three months under such terms.

Many employers seem to think that by calling a job an internship they may ignore the national minimum wage. Ambiguity arises when internships mix work (which must be paid for) with training (which need not be). But the government could be tougher: a website run by the department for business to advertise internship vacancies, due to get going later this month, meekly accepts that employers "in some circumstances may wish to offer unpaid internships". The Milburn review proposes loans for poor students to help them work for free, signalling to businesses that they need not worry too much about pay, minimum or otherwise. Don't expect a fuss: many of the newspapers, think-tanks and MPs who fret most about social mobility use unpaid interns themselves.

The impact of quantitative easing

When to call a halt

Jul 23rd 2009
From The Economist print edition

The central bank looks likely to decide in August that it has done enough

IN EARLY March, when the Bank of England lowered the base rate to 0.5%, it reached the limit of its usual way of reviving an ailing economy. It promptly moved into the unknown, switching to quantitative easing: an injection of newly created money into the economy by buying assets.

The decision was controversial because it sounded like the sort of thing that goes on in inflation-ridden banana republics. Despite such suspicions there was a cogent rationale for the policy. The economy was weakening so much that the worry was about deflation rather than inflation. A malfunctioning credit system meant that even rock-bottom base rates were not a powerful enough remedy. Another form of emergency treatment was needed.

The original plan was to buy £75 billion of assets, mainly gilt-edged government bonds, within three months, paid for by central-bank money. In May that was extended to £125 billion over five months. On July 9th the bank's monetary-policy committee (MPC) decided not to extend again, and the asset purchases are due to be completed by early August.

The decision the MPC faces next month is whether to call a halt then or raise the target. That will hinge on how effective it deems the policy to have been. One thing that has not been lacking is ambition. The first experiment with quantitative easing was in Japan in the early years of this decade as its central bank sought to combat deflation. It purchased assets equal to 7% of GDP spread over three years. The Bank of England, by contrast, will have bought the equivalent of 9% in less than half a year. Its programme of asset purchases as a share of GDP is second only to the Federal Reserve's in America, according to the IMF.

Quantitative easing is supposed to help the economy in three ways. First, by buying gilts with remaining maturities between five and 25 years from institutional investors like insurance companies, the central bank pushes up their prices and thus drives down their yields, which are inversely related. This in turn should raise the prices of other assets, such as corporate bonds, and bring down private-sector borrowing costs. Second, the policy should boost the broad money supply (cash and deposits), which will in turn support spending in the economy. Third, it can affect expectations, in particular by staving off fears of deflation, and also boost confidence more generally.

The initial effect of quantitative easing on the markets was striking. Yields on benchmark ten-year gilts fell in February and March when the policy was first signalled and then introduced. Since then, however, they have bounced back. That may seem disappointing, but it does not mean the policy has been pointless: yields would almost certainly now be higher but for the purchases.

Moreover, corporate-bond yields have fallen since early April. A lot of the decline stems from ebbing worry that banks might default on their debts. But yields on the bonds of non-financial firms have come down too. The Bank of England has been criticised for not using more of its money on direct purchases of corporate debt. It argues that the fastest way to ship money into the economy was through the big gilts market, and that it has alleviated fears about lack of liquidity in corporate bonds by acting as a backstop buyer in them.

There are few signs yet that the policy is boosting the growth of broad money held by households and businesses to a more normal pace, as it was supposed to. The latest figures suggest little improvement, although the rate of contraction for money held by firms has eased (see chart). Again, however, the weakening might have been greater but for quantitative easing. And it will take time for the extra money held by institutional investors to filter through to other parts of the economy.

Arguably, the policy has been most effective in influencing expectations. It is easy to forget just how gloomy markets and businesses had become in early 2009. Steps taken to stabilise the banking system were crucial, but quantitative easing lifted spirits by showing that the central bank retained firepower even when it could no longer cut interest rates. And fears about a lurch into deflation, making debt and borrowing costs more onerous in real terms, have receded. In late 2008 households were expecting inflation over the year ahead to be less than 1% but by June they thought it would be 2%, according to a survey by YouGov for Citigroup.



Just as a conventional boost through rate cuts takes time to work, so does the unorthodox approach of injecting money into the economy. Charlie Bean, the central bank's deputy governor responsible for monetary policy, said recently that it would take at least nine months for quantitative easing to work its way through to economic activity. The minutes of this month's MPC meeting, published on July 22nd, stressed that it is the stock rather than the flow of purchases that determines the monetary stimulus. The Bank of England looks increasingly likely to conclude in August that it has done enough for now.



The rise of paganism

Of Green Men and policemen…

Jul 23rd 2009
From The Economist print edition

Resurrecting the old religion

Getty Images



…and their sacred stones

MUCH blether about devil-worship, "political correctness gone mad" and the destructive effects of unchecked individualism greeted the announcement on July 16th of an official association for pagan policemen, to take its place alongside the existing Muslim Police Association and a recently created equivalent for Sikhs. But for Britain's druids, wiccans and witches, it was another precious inch gained in a quiet struggle to get society to take them seriously.

No one is quite sure how many pagans there are. The most recent census, carried out in 2001, counts 31,000, but others take a broader view. Ronald Hutton, a professor of history at the University of Bristol, has studied membership lists of various druidical orders and witch covens and reckons the true figure may be somewhere between 120,000 and 200,000. That could place pagans between Buddhists and Jews, respectively the sixth- and fifth-largest religious groupings in Britain.

One reason for the confusion is that pagans are shy: fearful that their devotion to pentagrams and the ancient Semitic god Baal will be misinterpreted as devil-worship, or simply worried about being mocked, many choose to hide their affiliation. The 2001 census included 390,127 self-described "Jedi Knights", inspired by the characters in "Star Wars"; many are thought to be pagans in disguise.

Another reason is that pagans are an ecumenical bunch, welcoming those who worship a variety of pre-Christian pantheons (Celtic, Germanic, Greek and plenty of others) as well as druids, witches and fuzzy spiritualists with a fondness for the countryside. The strongest themes are romanticism and a reverence for nature. That helps to explain paganism's appeal to characters as diverse as the poet Percy Bysshe Shelley (who was rumoured to keep an altar to Pan, a priapic pre-Christian fertility deity) and Kenneth Grahame, the author of "The Wind in the Willows", an Arcadian children's fantasy.

Despite the difficulties of definition, paganism has slowly been winning recognition from the authorities. It is not only pagan coppers who are finding their place in the sun. Pagan prisoners are now allowed to have religiously-themed possessions (wands, for instance), and in 2006 the Home Office approved a pagan oath for use in the courts ("By all that I hold sacred…"). There are still difficulties: the Pagan Police Group's website contains a discussion of the law on indecent exposure and the difficulties this poses for citizens who prefer to go "skyclad" (ie, naked). And Britain has a way to go before it catches up with countries more-recently Christianised: Asatruarfelagid, Iceland's pagan organisation, for example, was officially recognised in 1973, and is a beneficiary of that country's religious taxes.

Bagehot

No representation without taxation

Jul 23rd 2009
From The Economist print edition

Why Lord Ashcroft remains a problem for David Cameron

Illustration by Steve O'Brien



“I DON’T care if they were within the rules.” So said David Cameron in May of his colleagues’ dodgy expense claims. Things could be within the rules and still be unacceptable; politics must be seen to be clean. Yet Mr Cameron seems to apply a different standard to his party’s senior officers. He hired Andy Coulson as his director of communications, despite a furore over criminal methods at a tabloid newspaper Mr Coulson once edited, a scandal that has returned to haunt him. And he appointed and retains Lord Ashcroft as his party’s deputy chairman.

By his own account Lord Ashcroft is a private person. But his book, “Dirty Politics, Dirty Times”, offers insights into an eventful life: his childhood years in Belize, a poor country in Central America, when it was British Honduras; his admiration for military heroes; his charity work; his colourful business career, which started in the cleaning and security industries; how he likes to retreat to one of his yachts during crises. He describes his legal battles with the *Times* and the Labour government, which he thinks conspired with diplomats to discredit him.

And he chronicles his involvement with the Conservative Party, to which he has given many millions of pounds in cash and kind, lending it millions more. He was party treasurer from 1998 to 2001 and made deputy chairman in 2005. Before the general election of that year he subsidised the efforts of Tory candidates in selected marginal constituencies, with impressive results. He now oversees the party’s opinion polling and campaigning in target seats. His input may have helped deter Gordon Brown from calling an election in 2007 and is likely to be influential in the vote expected next year. All that has led him to be feared and loathed by Labour MPs, who complain about the loophole that allows unlimited spending by candidates between elections.

Yet Lord Ashcroft remains a risk. The problem is his link with Belize, to which he returned to base some of his businesses (“if home is where the heart is,” his book confides, “then Belize is my home”), and, specifically, doubts about where he pays his taxes.

When Lord Ashcroft was nominated for a peerage in 1999, he was rejected. One reason, he writes, was his role as Belize’s ambassador to the United Nations; another was that he was a tax exile. When he was at last ennobled in 2000, the Tories gave assurances that he would become resident in Britain for tax

purposes.

Maybe he has—but Lord Ashcroft has not said so. Even if he hasn't, he has broken no law. In accordance with party-funding rules, his donations are made mostly via British firms (though the main one involved is being investigated by the Electoral Commission, which regulates political donations). Nor are peers obliged to pay tax in Britain (though moves are afoot to change that). But the idea of representation without taxation seems odd, even if Lord Ashcroft rarely attends Parliament. When senior Tories are asked about his tax affairs their squirming circumlocutions are painful to hear. A recent interview with William Hague, the shadow foreign secretary, on "Newsnight" was excruciating.

Lord Ashcroft's interests in Belize have caused other headaches. He writes that he is "often affectionately known by locals in Belize as 'the Lord'." But his relationship with the country's current government is less than affectionate. A bank he controls is fighting a complex legal battle with it over controversial loan guarantees issued by the previous administration. In March the prime minister referred mysteriously to a "particular individual" who "is very close to approaching acquiring the status of an enemy of the people". *The Economist* sought Lord Ashcroft's comments on this, the tax issue and his place in the Tory party. His pugnacious spokesman called the questions "deeply pejorative". "Surely you are not expecting a response?", he wrote.

Politics is an expensive game; all the main parties sometimes hold their noses when raising the cash to play it. There was a period when it almost looked as if the Tories could no longer afford to. As Lord Ashcroft writes, when he became treasurer the party was a "financial basket case"; during his three years in the job he gave it around £6m ($10m, at current rates). It is not surprising that successive Tory leaders were eager to accept his generosity.

The clock is ticking

But the situation has changed. Under Mr Cameron, the Tories have broadened their funding base. Lord Ashcroft's munificence accounts for less than the 10% of party income he has said it once made up. He is no longer the biggest donor. Mr Cameron can be pickier than his predecessors about how he bankrolls his party.

If the pragmatic financial case for embracing Lord Ashcroft has weakened, the political arguments for resolving the problem have strengthened. As well as no longer being quite so broke, the Tories are now more than a mere pressure group for the disgruntled: they are quite likely to form the next government. If he is wise, Mr Cameron will sever any awkward associations before the frenzy of the campaign. The embarrassment such connections could cause him after he makes it to Number 10 could be severe. It is said that Lord Ashcroft does not try to influence Tory policy. But as long as his tax situation is opaque, he must count as one such potential embarrassment.

In his book Lord Ashcroft argues that the "skill of the businessman is to minimise the amount of damage to his company during the storm." The same is true of political leaders. Mr Cameron steered his party through the storm of the expenses uproar. Now he faces the squall of an election. In navigating the first tempest, he was accused by some of protecting those nearest to him while sacrificing more expendable MPs. As he approaches the second, he must address an uncomfortably intimate and high-ranking problem. As he says, it is not enough to argue that no rules have been broken. Lord Ashcroft must confirm that he pays British taxes. Otherwise, ungrateful and ungentlemanly as it might seem, Mr Cameron should surely cut him and his money loose.

Economist.com



Responsibility to protect

An idea whose time has come—and gone?

Jul 23rd 2009 | NEW YORK
From The Economist print edition

An idealistic effort to establish a new humanitarian principle is coming under attack at the United Nations

Rex Features



GARETH EVANS, a former Australian foreign minister and roving global troubleshooter, makes a bold but passionate claim on behalf of a three-word expression which (in quite large part thanks to his efforts) now belongs to the language of diplomacy: the "responsibility to protect". In a recent book, he says there are "not many ideas that have the potential to matter more for good, not only in theory but in practice."

Like many people who labour to ensure that mass murder will never recur, he links his personal commitment to an early formative event: in his case, a visit to Cambodia on the eve of the massacres in which up to a quarter of the population died. For others, the spur was the genocide in Rwanda, pictured above; for others still, the killing of Muslim men and boys from Srebrenica in Bosnia.

Whatever their motive, people of that cast of mind took heart from the moment in 2005 when the biggest-ever gathering of world leaders accepted the principle that they have a general "responsibility to protect" human beings from genocide, ethnic cleansing, war crimes and crimes against humanity. In a delicate formula which Mr Evans worked hard to craft, it was agreed that this concept, now known as R2P, referred mainly to the responsibility of states for their own people. Only in certain extreme circumstances, when states could not or would not protect their own citizens, or were actively harming them, might others step in. The concept was carefully modified so as to avoid giving prickly sovereign states the idea that they were about to be invaded at will by moralising outsiders.

But to the dismay of Mr Evans and his friends, a coalition of governments and other sceptics now seems bent on unravelling all their delicate work. These naysayers have been busily sharpening their knives ahead of a debate at the General Assembly which was due to start on July 23rd.

The apparent campaign to sabotage R2P is taking place in defiance of Ban Ki-moon, the UN secretary-general, who earlier this year drew up a report that presents the concept in the most cautious and reassuring of tones. As he argued, there were several benign and uncontroversial ways in which R2P could be made more real. For example, by helping decent states protect their people; or by having an effective early-warning system to trigger constructive action when things start to go wrong (or in plainer

terms, when states start to collapse). He says action, military or otherwise, by external powers is a last resort.

Such assurances have failed to convince critics of R2P, who are adamant that the whole idea is just a cover to legitimise armed interference by rich Western powers in the affairs of poor countries. One person who takes that view is Miguel d'Escoto Brockmann, a Nicaraguan diplomat (and Sandinista priest-politician), who is now president of the General Assembly.

In a calculated snub to the idealists who tried to make the R2P idea nuanced and hence palatable, he says a more accurate name for the concept would be the "right to intervene" or R2I. Quite a number of countries might be persuaded to support a resolution diluting the commitment to R2P that was made by over 150 states at the UN summit in 2005. Possible backers include large and middle-sized powers of various ideological stripes—including India, Pakistan, Cuba, Sudan, Venezuela and Egypt. Some of these may try to induce smaller states in their neighbourhood to follow their sceptical line.

Snoozy for some

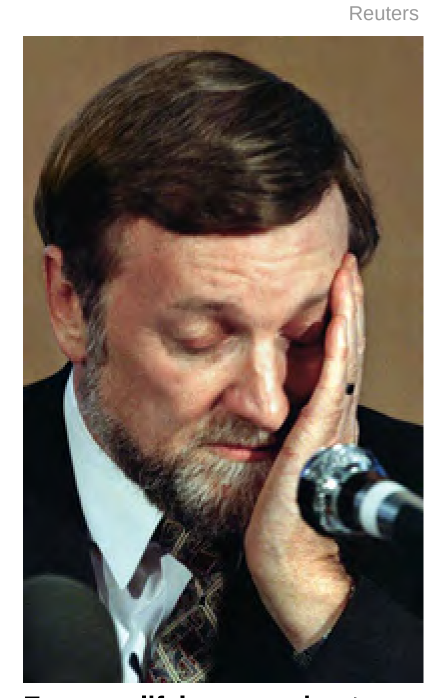
Supporters of R2P are complaining of a "surprise attack". They say Mr d'Escoto brought the debate forward by several weeks—to a snoozy period in late July. Conveniently enough, Mr Ban will not be around. On July 21st, before he left New York, Mr Ban made a short plea in R2P's defence, urging states to "resist those who try to change the subject or turn our common effort to curb the worst atrocities in human history into a struggle over ideology, geography or economics."

Meanwhile Mr d'Escoto scheduled an eve-of-debate discussion by a four-member panel in which Mr Evans was the only supporter of R2P—pitted against three sceptics, including Noam Chomsky, a linguist and veteran critic of American foreign policy. Ed Luck, who is Mr Ban's adviser on R2P, was allowed to make a statement, but only the panel members could take questions from member states.

Rhetorically at least, opponents of R2P may be able to bolster their case by linking the concept with the more controversial notion of "humanitarian intervention"—which was used, in part at least, to justify the Anglo-American assault on Saddam Hussein's Iraq, along with the more formal argument based on the regime's alleged possession of illegal weapons.

Protection, Russian style

Reuters



Evans: a lifelong passion to protect

Russia tried to turn the West's logic on its head when it claimed that its war in Georgia last August was an exercise of the "responsibility to protect" people against atrocities, in this case the residents of two breakaway regions of Georgia.

In fact, however tainted it may be, R2P is certainly not—to judge by a careful reading of its history—a mere ploy by rich and powerful countries to poke their noses into the affairs of small nations. Its origins are somewhat more interesting.

One of the first international bodies to endorse the concept, or a version of it, was the African Union, which emerged from the discredited Organisation of African Unity. The AU's Constitutive Act included a provision for "the right of the Union to intervene in a member state pursuant to a decision of the [AU] assembly in respect of grave circumstances, namely: war crimes, genocide and crimes against humanity." It cited a new principle of "non-indifference" to large-scale crimes.

One of R2P's keenest sponsors was Kofi Annan, the Ghanaian who preceded Mr Ban as secretary-general. Mr Annan has agonised in public about the UN's failure in Rwanda, when he was head of un peacekeeping, and has argued that his success as a peace-broker in Kenya last year owed something to the existence of R2P as a moral instrument.

Meanwhile, America, far from dreaming up R2P as a crafty way of justifying imperialist adventures, was initially rather sceptical. Under the Bush administration, both the Pentagon and the State Department were intensely wary of signing up to anything that might bind them to take draconian action in the name of humanity.

Indeed, R2P was a part of a much broader 2005 reform of the United Nations that George Bush first sought to weaken, then only reluctantly accepted. And to this day, there are voices on America's political right that remain profoundly sceptical about the idea of costly pledges to wage wars in the name of protecting people from inhumanity.

Barack Obama's administration, with its internationalist instincts, is clearly a lot more comfortable with notions like R2P. The President, during the Group of Eight summit in Italy in July, made some supportive noises; and his UN ambassador, Susan Rice, made a more impassioned speech in defence of R2P last month, soon after visiting Rwanda.

But if R2P is no Western plot, it may not be the perfect way to ward off dreadful acts of mass murder either. Perhaps its greatest drawback is also one of its touted merits: that it is so carefully crafted to conform with the current UN charter, which makes the Security Council the most important arbiter of war and peace.

All attempts to reform the membership of the council, which gives America, Russia, China, France and Britain the privilege of permanent seats and vetoes, have failed. So critics of R2P may well use the argument that five victors of the second world war should not have the crucial say as to when coercion may be used.

An angry, inconclusive General Assembly debate will not doom R2P. But it risks reinforcing the rift between an assembly that is perceived as representing poor, small and weak countries, and a council on which powerful, or once-powerful, countries have a disproportionate say.

And that would be seen in many quarters as sad and ironic, because, in the words of one R2P supporter, it is the "South that needs R2P the most."

Establishing peace

Blue briefcases

Jul 23rd 2009
From The Economist print edition

After the peacekeepers come the peacebuilders. But they are struggling

IT DOES not take very much to stoke the embers of a conflict, especially if peace has come about not on its own, through exhaustion, but thanks to foreign soldiers, acting under the African Union or the UN's blue flag. Hence the importance of the first couple of years after the soldiers' work is mostly done. Reconciliation, justice, reform and investment—such things play a big part in determining whether peace will last and what sort of place will rise out of the ashes.

No wonder that "post-conflict peace-building", as the jargon has it—in places such as Sierra Leone and Guinea-Bissau—has come to be seen as the vital second act to peace-keeping. But foreigners find peace-building hard. Often, war has destroyed the state: there is no one to collect taxes, administer justice or carry out government policy. Time is short; the list of agencies that have to work together fractiously long. Last year Guinea-Bissau, for instance, slid back into political violence and assassination.

On July 22nd, four years after the UN set up a Peacebuilding Commission, the Security Council heard an assessment of how much better the job could be done. Beneath the thickets of UN-speak lie three priorities. The first is the need for a strong leader to stop international agencies' turf wars. Somebody needs to bang bureaucratic heads together and set an agenda. A politician touring Uganda remembers hearing from each agency how well it was doing. But when he got them together to ask who was choreographing their effort he met an embarrassed silence.

The second is for money to be released in good time. Humanitarian funds come out of emergency budgets; peace-building usually comes out of development budgets. They tend to be slow, wasting precious months. The third is to build capacity in war-ravaged countries. However enlightened your policies, they are worth nothing without people to administer them.

In practice, such people have been difficult to find, so the UN is scouring the world for the civilian counterparts to blue-helmets: foreign judges, policemen and bureaucrats, who can help run the country and train their replacements. It is a tall order, but the UN cannot stop the war unless it is also able to win the peace.

Radio propaganda

Crackles of hatred

Jul 23rd 2009
From The Economist print edition

Silencing murderous messages is not as easy as it sounds

Illustration by David Simonds



LAST year, as Kenya slid into mayhem, the words that sputtered forth from crude transmitters were cryptic but, to those in the know, horrifying. "People of the milk", a reference to the cattle-owning Kalenjin people, were urged to "take out the weeds in our midst"— in other words, the Kikuyus. Meanwhile Kikuyu broadcasters inveighed against the peril posed by "animals from the west": this meant the rival Luo (from which Barack Obama originates) and Kalenjins.

In East Africa this use of radio to incite ethnic slaughter recalled an even darker episode: the Rwandan genocide of 1994, in which a station called Radio Mille Collines (Thousand Hills Radio) seemed to be directing the massacres. It not only poisoned the general atmosphere but urged on the killers, with phrases like "cutting the tall trees" and "killing the cockroaches".

In an era of drones and spy satellites, it may seem odd that crude simple radio transmitters can still make huge mischief. But the scale and sophistication of broadcasting has mutated downwards as well as upwards. In the mid-20th century, totalitarian dictators found national radio stations were a handy way to foment hate and fear; and non-state actors (from communist guerrillas to churches) have been using radio for almost as long. In recent years the medium has been exploited in ever darker ways by petty warlords as well as by big-time tyrants.

Take the war zone on Pakistan's north-western frontier, where radio's sinister side has been on stark display. Scores of small FM transmitters—used to propagate extremist ideas and to terrorise local foes—have played a part in shoring up the Taliban's power. One notorious user of the air waves is Mullah Fazlullah, a Taliban leader in the Swat valley who is known as the "Mullah Radio" because of the threats he issues from an FM transmitter. After claims that he had been wounded, his voice was heard in mid-July for the first time in several months, albeit more subdued in tone than before.

Peacekeeping pundits agree that more must be done to pre-empt and counter the effects of "hate radio". Nipping conflict in the bud by silencing dark propaganda would do a lot of good. If the problem were simply technical, it would presumably be soluble; an army bristling with space-age gadgetry must be capable of jamming a crude FM transmitter. But as anybody with experience of the problem confirms, neutralising nasty broadcasts is not so simple.

In Pakistan's war zones, a policy based purely on jamming, and confiscating kit, would upset local

Pushtuns, for whom radio is a vital medium. Transmitters, often using batteries from cars or motorcycles, are easy to re-establish, says Mukhtar Khan, an analyst with the Jamestown Foundation, a think-tank in Washington, DC. He thinks the only antidote to hate radio is rival FM transmissions, run by locals who speak familiar dialects and cater to local interests, from farming to music.

A similar point is made by Eric Rosenbach, a veteran of American military intelligence (with knowledge of the Balkans and Iraq) who is now research director at Harvard University's Belfer Centre. "You can even further alienate a population if you take away their only source of information—but if you offer something new that's not obviously artificial, they may grab on to [it]."

American forces in Afghanistan already seem to be following that advice. They are making broadcasts of local interest and handing out wind-up radios.

In the world of journalism, meanwhile, some hard thinking is going on about how to stop abuse of the air waves. Radio Netherlands and Amsterdam University are refining a proposal for an early-warning system that would pick up hate-speech broadcasts, including cryptic ones, and at least mitigate their effects.

But Jan Hoek, who runs the global arm of Radio Netherlands, says he has grown cautious about lavish Western efforts to promote "good" media in places like Rwanda where radio was used for evil ends. It only works, he says, when locals are in the lead; otherwise the whole effort stops as soon as funds dry up. Despite these reservations, some fine courageous stations do now serve the region—such as Radio Okapi, broadcasting from Congo; two of its journalists have been killed.

For analysts of hate radio and its antidotes, the Balkans provide evidence of what works. The "ring around Serbia", consisting of Serbian-language broadcasts from neighbouring states, which America helped establish, probably helped topple Slobodan Milosevic in 2000.

And in 1997, soon after arriving in Bosnia, NATO troops took swift action to seize transmitters and stop broadcasts by hard-line Serbs opposed to the Dayton peace deal. By contrast, during the bombing of Serbia in 1999, NATO lost support when it heavy-handedly hit the state broadcasting building in Belgrade, killing 16 staff. (A Serbian broadcasting boss was later jailed for not passing on NATO's warnings that the building was a target.)

Richard Holbrooke, the broker of the Dayton accord who is now America's envoy to Afghanistan and Pakistan, has named broadcasting as one area where lessons learned in one war zone must be transferred to others. In the Swat valley, he noted in March, "Fazlullah is going round every night broadcasting the names of people they're going to behead or have beheaded. Any of you who have a recent sense of history will know that that's exactly what happened with Radio Mille Collines in Rwanda."

Waking from its sleep

Jul 23rd 2009

The Arab world has experienced two decades of political stagnation, says Peter David (interviewed here). But there is a fever under the surface

AFP



IN A special report on the Arab world which *The Economist* published in 1990, the headline at the top of this page was "When history passes by" (see article). That was when the communist dictatorships of eastern Europe were beginning to wobble and fall. In the Arab world, however, authoritarian rule remained the order of the day. And whereas western Europe was making massive strides towards political and economic union, the Arabs remained woefully divided. Much Arab opinion remained fixated on the struggle with Israel, in which the Arabs seemed unable to hold their own, let alone prevail.

To revisit the Arab world two decades later is to find that in many ways history continues to pass the Arabs by. Freedom? The Arabs are ruled now, as they were then, by a cartel of authoritarian regimes practised in the arts of oppression. Unity? As elusive as ever. Although the fault lines have changed since Saddam Hussein invaded Kuwait 19 years ago, inter-Arab divisions are bitter. Egypt, the biggest Arab country, refused even to attend April's Arab League summit meeting in Doha. Israel? Punctuated by bouts of violence and fitful interludes of diplomacy, the deadly stalemate continues. Neither George H. Bush at Madrid in 1991 nor Bill Clinton at Camp David in 2000 nor George W. Bush at Annapolis in 2007 succeeded in making peace or even bringing it visibly closer.

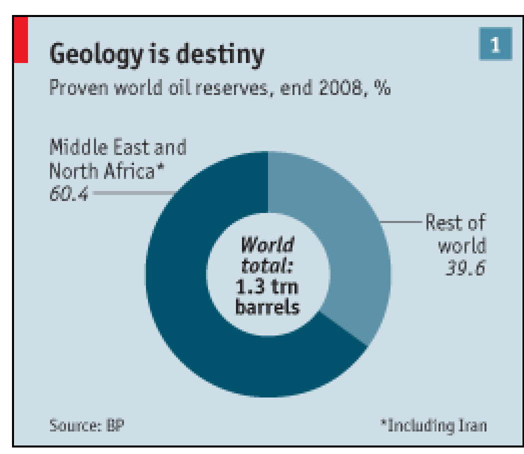
The stubborn conflict in Palestine is a reminder that in some doleful ways history has not passed the Arabs by at all. They have seen plenty of history of the wrong sort these past two decades. It includes a good deal of violence: the Arab world has been caught up in wars both major and minor, not only between Arabs and outsiders, such as those with Israel, but also between, and within, Arab states.

Indeed 1990, the year Saddam invaded Kuwait, was something of a turning point. America's quick eviction of his army from the tiny oil state after only 100 hours of ground fighting looked at the time like a triumph. But a case can be made that this was in fact the starting-point of a whole sorry sequence of events encompassing the rise of al-Qaeda, Osama bin Laden's September 11th strikes on the American mainland and—in Arab eyes—America's no less traumatic invasions of Afghanistan in 2001 and Iraq in 2003 in its "war against terror".

Wars can happen anywhere. What makes the Middle East especially prone to them? Just count the ways. First is oil. In the late 1990s Mr bin Laden wrote a letter to Mullah Omar, the leader of the Afghan Taliban, in which he pointed out that 75% of the world's oil was found in the Persian Gulf region and that "whoever has dominion over the oil has dominion over the economies of the world." So long as that remains broadly true, the interests of energy-hungry powers from near and far will continue to grind against each other there.

Second is the continuing and worsening Arab, and lately also Iranian, conflict with Israel. Since 1990 thousands more Arab and Israeli lives have been thrown into the maw of this voracious struggle—in the Palestinian *intifada* (uprising) that started after the collapse of Mr Clinton's Camp David peace summit in 2000, and in Israel's ruthless mini-wars in Lebanon in 2006 and in Gaza at the beginning of this year.

The last and perhaps greatest underlying cause of instability arises from the nature of the Arab states themselves. Elections are widespread in the Arab world. And yet if you put aside the Palestinians' imaginary state, hardly any of the 21 actual states that belong to the Arab League can plausibly claim to be a genuine democracy. In the absence of democracy, Arab states therefore rely to an extraordinary degree on repression in order to stay in power. And from time to time this system of control breaks down.



A spectacular example came in Algeria in 1991, when the army blocked a promising experiment in free elections that was starting to unfold under President Chadli Benjedid. After an opposition Islamist party won in the first round of parliamentary elections, the generals blocked the second, and so detonated a gruesome civil war that lasted almost a decade and may have killed 200,000 people. In the 1990s internal terrorism stalked Egypt too: radical Islamist movements such as Islamic Jihad and the Jamaat Islamiya claimed more than 1,000 lives. And although most of Egypt's erstwhile jihadists have long since renounced violence, others—notably Ayman al-Zawahiri, Mr bin Laden's number two—went on to found and lead al-Qaeda.

Tribes with flags

The political instability of the Arab world is in turn connected to another problem: the missing glue of nationhood. Many years ago an Egyptian diplomat, Tahsin Bashir, called the new Arab states of the Middle East "tribes with flags" (though he exempted Egypt). His point still holds. In countries as different as Lebanon and Iraq, ethnic, confessional or sectarian differences have thwarted programmes of nation-building. That is why Iraq fell apart into Sunni, Shia and Kurdish fragments after the removal of Saddam despite decades of patriotic indoctrination. Syria could follow suit if the minority Alawi sect of the ruling Assad family were somehow to lose control of this largely Sunni country. Sudan has seen not one but two civil wars between its Arab-dominated centre and the non-Arab minorities in its south and west.

In reviewing this litany of troubles, it is necessary to remember that what people call "the Arab world" is a big and amorphous thing, and arguably (see article) not one thing at all. It would be a distortion to portray the whole region as a zone of permanent conflict. However bloody they have been, the wars in Iraq, Algeria, Sudan or on the borders of Israel have not disrupted ordinary life in the whole Arab world. Most Arabs have been touched by the violence only through their television screens (though, as we shall see, the powerful emotions such images stir up have real-world consequences too). Many Arab countries can look back over the past two decades and see elements of progress to be proud of, including, in some places, rising prosperity and a slow but steady expansion of personal freedom.

And yet the years of conflict cannot just be written off, as if the various outbreaks of internal or inter-state violence were just local aberrations or the product of bad luck, or as if they had no bearing on the region's future prospects. It is not just that, if you add all the bloodletting together, up to a million citizens of the Arab world may have perished violently since 1990, and that killing on this scale cannot but leave deep scars (see table 2). The disturbing point for the future is that none of the underlying causes of conflict enumerated above has disappeared. On the contrary, each appears to be taking on the characteristics of a chronic condition.

Take the contest over energy resources. This stands little chance of abating at a time when the energy appetites of China and India continue to grow and when a beleaguered America and a rising Iran are competing for domination of both the Levant and the

Persian Gulf. As for Palestine, peace looked more achievable during the negotiations initiated by Yitzhak Rabin and Yasser Arafat in the 1990s than it does now, with Hamas and a Likud-led government in Israel darkening hopes of a two-state solution. In most Arab countries the glue of nationhood is still weak: the sectarian conflict in Iraq may intensify again as America begins to withdraw its forces (and Shia-Sunni tensions have spread beyond Iraq). Lastly, in almost any Arab country, at almost any time, political and social discontent is in danger of tipping into violence—even, some insiders and outsiders are beginning to argue, into revolution.

Two bloody decades 2

Conflicts in the Arab world since 1990

Conflict	Arab deaths
Darfur (since 2003)	400,000
Algerian civil war (1991-2002)	150,000-200,000
Invasion of Iraq (since 2003)	101,000-109,000
Iraqi Shia rebellion (1991-92)	60,000-100,000
War for Kuwait (1990 & 1991)	24,000-31,000
Second Palestinian *intifada* (2000-05)	5,500
Gaza war (2009)	1,400
Lebanon war (2006)	1,200

Sources: Algerian government; British Council; B'Tselem; Iraq Body Count; Kuwaiti government; Palestinian Centre for Human Rights; Project on Defense Alternatives; Reuters; UN

The world of the Arabs

Jul 23rd 2009

What do they have in common?

CONVENIENT as it is to describe the 22 countries (including the unborn Palestine) that belong to the Arab League as "the Arab world", the neat phrase can mislead. This is a heterogeneous agglomeration of some 350m people—Maronites, Copts, Berbers, Kurds and Africans as well as Arabs and Muslims—inhabiting a miscellany of lands from the Atlantic to the Persian Gulf and from the Saharan desert to the foothills of Anatolia. So all generalisations about the Arabs—their experiences, instincts and styles of faith or politics—should be treated with scepticism.

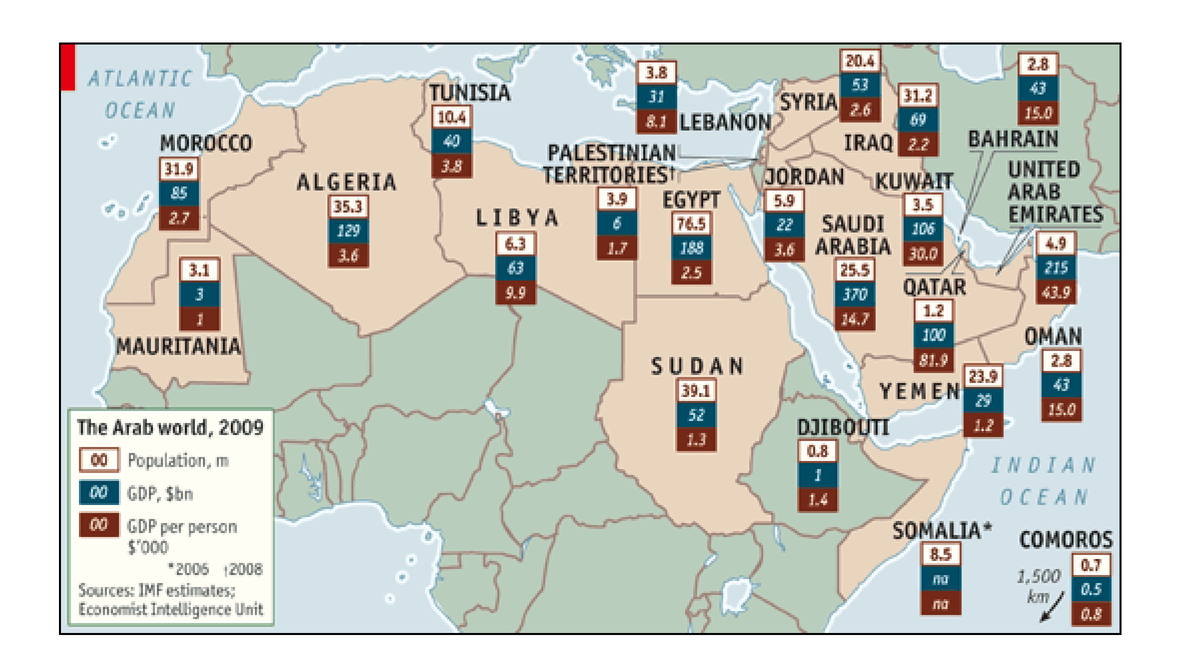
Being "an Arab" is as slippery a notion as being "a European". These are loose identities, put on and taken off according to taste and circumstance (see chart 3). Many a black Christian African living in the south of Sudan, a country that happens to be a member of the Arab League, would be astonished to be told he was an Arab. So, despite being Muslim, would an Iraqi Kurd (though a Lebanese or Palestinian Christian would not be).



If they are not an ethnic or a religious group, nor are the Arabs a language group. Arabic is widely spoken in the Arab world, but so for that matter is French. And Arab dialects differ so much that a Syrian will struggle to understand the Arabic of a Moroccan. Since most of the borders of the Arab world owe more to the dispositions of European colonialists than to authentic national groupings, some Arabs may think of themselves as Arabs first and Jordanians or Libyans second. For an Egyptian it would probably be the other way round.

Islam is the dominant religion of the Arab world, but most of the world's Muslims are not Arabs. And although Islam gives Arabs a strong sense of fellowship, it can be a dividing force too. In some circumstances Sunnis and Shias still fight religious wars against each other, as they recently did in Iraq.

Also in stark contrast to Europe, the Arab world has seen little formal integration. The United Arab Republic (UAR), which Egypt and Syria formed in 1958, lasted only three years. Other regional acronyms have come and sometimes acrimoniously gone. Thanks to Saddam's invasion of Kuwait, the ACC (the Arab Co-operation Council of Egypt, Iraq, Jordan and North Yemen) survived only a year after its birth in 1989. The Arab Maghreb Union has been a flop. The Gulf Co-operation Council (GCC), consisting of Saudi Arabia and its five Gulf satellites, has fared better. But this and other projects have been held back by rivalries. As for the Arab League, it does little more than organise bad-tempered summits, fend off Western criticism of human-rights abuses by its members and denounce Israel. Al-Jazeera, the Arab world's most popular television channel, does an infinitely better job of providing the disparate Arabs with a sense of unity.



ATLANTIC OCEAN
MOROCCO
31.9
85
2.7
ALGERIA
35.3
129
3.6
TUNISIA
10.4
40
3.8
LIBYA
6.3
63
9.9
MAURITANIA
3.1
3
1
PALESTINIAN TERRITORIES†
3.9
6
1.7
EGYPT
76.5
188
2.5
LEBANON
3.8
31
8.1
SYRIA
20.4
53
2.6
IRAQ
31.2
69
2.2
JORDAN
5.9
22
3.6
SAUDI ARABIA
25.5
370
14.7
KUWAIT
3.5
106
30.0
BAHRAIN
2.8
43
15.0
UNITED ARAB EMIRATES
4.9
215
43.9
QATAR
1.2
100
81.9
OMAN
2.8
43
15.0
YEMEN
23.9
29
1.2
SUDAN
39.1
52
1.3
DJIBOUTI
0.8
1
1.4
SOMALIA*
8.5
na
na
COMOROS
0.7
0.5
0.8
INDIAN OCEAN
1,500 km
The Arab world, 2009
00 Population, m
00 GDP, $bn
00 GDP per person $'000
*2006 †2008
Sources: IMF estimates; Economist Intelligence Unit

Imposing freedom

Jul 23rd 2009

Well, that didn't work

Getty Images



Obama and Mubarak talked of respect, not freedom

IN THE month of June an attractive black American politician visited a university in Cairo and made an astonishing speech. "For 60 years," said the visitor, "my country, the United States, pursued stability at the expense of democracy in the Middle East—and we achieved neither. Now we are taking a different course. We are supporting the democratic aspirations of all people." The year was 2005 and the orator was Condoleezza Rice, George Bush's secretary of state.

For someone in her position to make such a speech in such a place was testimony to the huge impact the attacks of September 11th 2001 had on American thinking about the Middle East. The advent of al-Qaeda persuaded the neoconservative ideologues of the Bush administration that terrorism carried out in the name of Islam was bred in part by the lack of democracy and pluralism in the Arab world. Henceforth America's national interest lay in persuading the autocratic regimes it had previously supported, such as Egypt's, to turn themselves into democracies.

Four years on from Ms Rice's speech, the Bush administration's dream that democracy could be imposed on the Arabs by an outside force lies in tatters. Whatever becomes of Iraq in the longer term, the bright hope that the Americans' removal of Saddam might transform that country into a democratic example for other Arabs to follow has flickered out. The invasion, and the civil war that followed it, killed far too many Iraqis for anyone else in the region to wish such a chaotic, bloody and destructive experiment on themselves.

The installation of democracy was never the main part of America's motivation for unseating Saddam. The need to rid America of an unpredictable enemy, suspected plausibly of pursuing weapons of mass destruction, loomed much larger in Mr Bush's pre-war speeches and deliberations. His "freedom agenda" came to the fore later, after it was discovered that the much-hyped weapons did not exist. But this later effort to talk, bribe and bully friendly Arab regimes into political reform was serious. And the reasons for its failure, even in the case of supposedly malleable American "clients" such as Egypt and Saudi Arabia, reveal a great deal about the immobility of Arab politics.

Drip, drip, drip

The pressure Mr Bush put on the Arab regimes to embrace democracy was not brutal, but it was significant. In 2002 the president spoke up in support of Saad Eddin Ibrahim, an Egyptian-American writer and political activist who had been imprisoned on what looked like trumped-up charges. In 2005 Mr Bush called on President Hosni Mubarak to allow freer voting in the Egyptian elections due that year.

In places where America wielded more direct influence over events, such as post-invasion Iraq and, via Israel, the Palestinian territories, elections became the order of the day. At America's behest Iraqis went to the polls three times in 2005: first for a National Assembly, then for a referendum on a new constitution, and last to elect another National Assembly under the new constitution's rules. To Israel's astonishment, the Americans also advised letting Hamas contest the Palestinian elections of January 2006, which the radical Islamist movement then disobligingly went on to win.

It wasn't all just scolding and nagging. Money spoke too. Mr Bush leant on the rich countries of the G8 to set up a Broader Middle East and North Africa Initiative, intended to promote democracy in the region. In Washington, DC, the American taxpayer and federal bureaucracy were enlisted in the freedom agenda's cause. Liz Cheney, a well-connected deputy assistant secretary at the State Department (her father was vice-president), created the Middle East Partnership Initiative, a project that would use American grants and advice to spread political and economic freedom and women's rights. Arab presidents who visited the White House during this period had to endure stiff lectures on the importance of a free press. And so forth.

All this pressure irritated America's Arab friends. The kings, emirs and presidents who depended on American aid, markets and military muscle had suddenly to talk the language of pluralism, knowing full well that the advent of real democracy in their countries could swiftly put them out of their jobs. Nonetheless, they considered it prudent to bend a little.

From Alexandria in 2004 a conference of Arab politicians, intellectuals and civil-society organisations, meeting under the auspices of Egypt's president, issued a declaration expressing support for democratic reform, freer speech and human rights. Mr Mubarak promised freer elections in 2005 and introduced a constitutional change to make them possible. In that year's parliamentary elections the main opposition movement, the Muslim Brotherhood, did strikingly well, taking a fifth of the seats in the People's Assembly, the lower house, and would probably have done better still but for heavy police interference on polling day. In 2005 Saudi Arabia held elections (men only) for new local councils (though half the representatives were to be appointed, not elected).

Still, cosmetic and procedural changes such as these were not allowed to interfere for long with the stark realities of power. Two months ago the Saudis announced that the second round of municipal elections was going to be delayed by two years. In Egypt there was never any prospect of a rival candidate being allowed to defeat Mr Mubarak, who has been president since 1981. No Egyptian expects him to leave office before he dies. (Mr Mubarak has refused to appoint a vice-president.)

Since the elections of 2005, moreover, the regime has cracked down hard on its opponents. Ayman Nour, a secular politician who dared to run against Mr Mubarak, was jailed for more than three years on questionable charges. The Bush administration complained loudly about his arrest, but he was released only this year, after Mr Bush himself had left office. In May, shortly after announcing his willingness to stand again, Mr Nour was injured in an attack he blamed on the government.

The Muslim Brotherhood, likewise, has been punished heavily for its success in the elections (though its candidates were allowed to run only as "independents"). Many of its leaders have since been put under arrest. In 2007 new constitutional amendments banned political parties with a religious orientation and increased the extensive powers of the president. The emergency laws under which Egypt has been governed for most of the past half-century have been extended yet again. The government has stopped broadcasting parliamentary debates or reporting them in the official newspapers. Essam el-Aryan, a jovial though oft-jailed member of the Brotherhood, says police continue to mount repeated raids on members and to close down their businesses.

The wrong messengers

Why did Mr Bush's message of reform fail? One reason, a lot of Arab reformers say, is that he and his colleagues were—or at least became—the worst possible messengers. Thus Hossam Bahgat, founding director of a pressure group, the Egyptian Initiative for Personal Rights, admits to having been impressed and surprised when Ms Rice turned up at the American University in Cairo to say exactly what people like him had been longing to hear: that there would be no more American support for dictators. But when the American government then started to defend its own human-rights abuses at Guantánamo and elsewhere, he felt disgusted. "What we learnt from the Bush years was that reform was our own business," he says now.

In Arab eyes, the freedom agenda was also tainted by the war in Iraq. How could America claim to have Arab interests at heart while laying waste to one of the Arab world's biggest countries (and, cynical Arabs add, the one most dangerous to Israel)?

Consider the reaction of Nader Fergany, an Egyptian academic, democracy advocate and author of a report published by the United Nations Development Programme the year before the American invasion. The 2002 Arab Human Development Report was extraordinarily frank about the flaws and failures of the Arab world and the urgency of reform. Its author is just the sort of person you might expect to have welcomed Mr Bush's reform effort. But, like many Arab intellectuals, he is still fuming about the war six years on, and not much appeased by the new president's plan to withdraw. "The Americans are the Mongols of the 21st century," he declares, "and now Barack Obama is trying to put the icing on this dirty cake."

Tamara Cofman Wittes, who followed the progress of the Bush administration's democracy promotion in the Arab world closely from her perch at the Brookings Institution in Washington, DC, says in a recent book ("Freedom's Unsteady March", Brookings, 2008) that there were plenty of other flaws in the project's design and execution. But underlying all of them was America's own ambivalence. Might pushing reform too far estrange America's allies and damage its interests? And what if, in a serious democratic contest, Arab voters opted for radical Islamists hostile to the United States—as Algerians seemed poised to do in 1991, and so many Palestinians and Lebanese did when they cast their votes for Hamas and Hizbullah a decade and a half later?

Cairo revisited

Whatever the reasons for its failure, Mr Bush's freedom agenda is now dead. In June of this year it was the turn of Barack Obama to make a spellbinding speech at a university in Cairo. This speech will go down in the history books. It was an eloquent attempt by the new president to repair America's relations with Islam and make America's stance on Palestine look more even-handed in the eyes of Arabs. But in some ways this speech was less ambitious than Ms Rice's of 2005. Like Ms Rice, Mr Obama extolled the virtues of democracy. But this time he stressed the crucial rider. "Each nation gives life to this principle in its own way, grounded in the traditions of its own people," he said. "America does not presume to know what is best for everyone."

Nobody questions Mr Obama's belief in the democratic idea. He did not shrink in Cairo from calling on rulers to govern by consent, not coercion, and to respect the rights of women and minorities. But it is clear that under his presidency the United States will no longer be forcing its political values down the throats of reluctant allies (or even, as in Iran, foes). "Respect" has displaced "freedom" as the word of choice in America's discourse with the Muslim world. That may be wise, from America's own point of view, and welcome to the Arab rulers, if not necessarily to the Arab ruled. But the new approach leaves the fundamental problem of political stagnation in the Arab world unresolved. After all, if the outside world cannot bring it, change will have to come from within.

All change, no change

Jul 23rd 2009

Mountain above, volcano below


AFP

IMAGINE an Arab Rip Abu Winkle who had fallen into a deep slumber some time in the early 1980s. If he woke up now, he would rub his eyes in disbelief at how little had changed.

Hosni Mubarak is still the president of Egypt, after a cool 28 years in the top job. In Syria the grim reaper did for Hafez Assad after a run of three decades as the country's ruler, but his son, Bashar, has become president in his place. In Tunisia Zine al-Abidine Ben Ali remains president after 22 years. Ali Abdullah Saleh has been president of parts or all of Yemen for more than 30 years. Jordan is still run by the Hashemite family, Morocco by the Alouite family, Saudi Arabia by the al-Sauds and Kuwait by the al-Sabahs. Muammar Qaddafi has been imposing his idiosyncratic brand of "Islamic socialism" on Libyans since 1969. And like Syria, Libya may become a family business on the old man's death: as in Egypt, there is much talk of a favoured son inheriting the fief.

And yet an awakening sleeper would be amazed not only by how little had changed in Arab politics but also by how much had changed in Arab society. One shock would be the sheer press of humanity. By next year the region's population will have doubled over 30 years—from fewer than 180m people to some 360m. He might also be astonished by the youth of so many of these people: the majority of Arabs are under 25 years old.

Our Rip Abu Winkle would not have to consult a book of statistics to find out about the ballooning of this youthful population. It is highly visible. That is because rapid population growth has coincided with a massive influx into the cities from the countryside, transforming the sights, sounds and sociology of every corner of the Arab world. Cairo burgeoned from 9m souls in 1976 to a cacophonous 18m in 2006. Saudi Arabia's capital, Riyadh, hardly a city at all 50 years ago, by 1990 had a population of more than 2m and today has 5m. By 2006 some 87% of Lebanese and 83% of Jordanians were living in cities.

If, to take this fable a bit further, Rip Abu Winkle were a political scientist, he could hardly fail to be disturbed by the contrast between the decades of political stagnation on the one hand and the decades of rapid social change on the other. At some point, will the demands of all these young people for jobs and prospects, together with the impact of mass education, global ideas and modern media, not mutate into demands for a voice—and then for the broader freedoms common in the rest of the world? How much longer can systems of government based on personal authoritarian rule, or on the rule of a single party, dam up this rising tide of expectations?

Predicting disaster in the Arab world has become something of a cottage industry. Kenneth Pollack, a former CIA analyst now at the Brookings Institution, argued in a book last year that the Arab world is floundering in socio-economic problems so deep that almost every Arab country can be considered to be in a "pre-revolutionary" condition. A recent book on Egypt is subtitled "The Land of the Pharaohs on the Brink of Revolution". David Gardner, a writer for the *Financial Times*, called his recent book on the region "Last Chance".

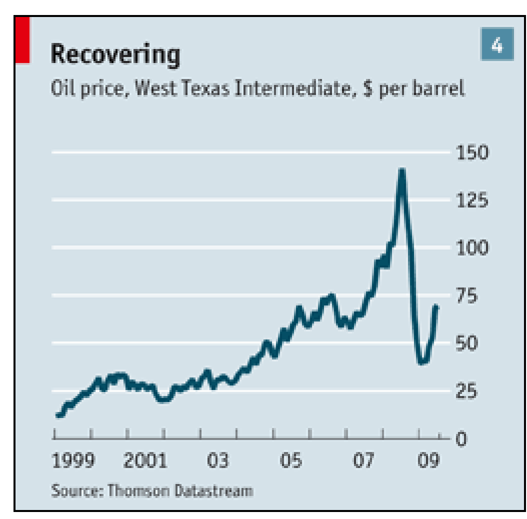
The dark side

If you trawl through comparative global economic and social statistics, it is not difficult to paint a bleak picture of Arab failure, based on a broad pattern of underperformance in investment, productivity, trade, education, social development and even culture. The total manufacturing exports of the entire Arab world have recently been below those of the Philippines (with less than one-third the population) or Israel (with a population not much bigger than Riyadh's). From 1980 to 2000 Saudi Arabia, Egypt, Kuwait, the United Arab Emirates, Syria and Jordan between them registered 367 patents in the United States. Over the

same period South Korea alone registered 16,328 and Israel 7,652. The number of books translated into Arabic every year in the entire Arab world is one-fifth the number translated by Greece into Greek.

Comparisons like these need to be treated with care. For millions of Arabs, living conditions have improved rather than deteriorated over recent decades. Indeed, the starkest economic challenge Arabs face—a massive population bulge—is itself the product of big strides in immunisation, nutrition and child health. In a survey of Arab economies published in 2007 by the Peterson Institute for International Economics, Marcus Noland and Howard Pack reported that on fundamental social indicators such as literacy, poverty and education the Arab countries do as well as or better than most other countries with similar incomes. And within the Arab world there are vast regional discrepancies that limit the value of generalisations. In 2002 *The Economist* noted in a special report on the Gulf states (see article) that the six desert monarchies since 1970 had trebled literacy levels to 75%, added 20 years to average life expectancy and created a world-class infrastructure by spending a total of $2 trillion. Such efforts should be given their due.

Some of these gains are now threatened by the global economic downturn. The bursting of the property and tourism bubble in the Gulf will have ramifications throughout the region. Most of the migrant workers in the Gulf states hail from Asia, but a lot are also sucked in from the poorer Arab countries. They—and Arabs working in Europe—are now losing their jobs and heading home, so families and home economies are deprived of precious remittances. The World Bank reckons that remittances make up about a fifth of GDP in Lebanon and Jordan. Egypt will be hit too: an unknown number of Egyptians, but at least several million, live and work abroad, many of them in the Gulf.



And yet the present downturn is not the Arabs' main economic worry. If anything, Arab countries are less vulnerable than other parts of the world. The energy producers still have the cash windfall they collected before oil prices tumbled—and now prices are rising again (see chart 4). Thanks to the advent of well-managed sovereign-wealth funds, many have looked after their financial assets far more prudently over this cycle than during previous bonanzas. As for the wider Arab world, what in good times is a disadvantage—the fact that their economies and financial institutions are weakly integrated into the global economy—is at present providing a measure of shelter from the storm.

Too young

By far the biggest difficulty facing the Arabs—and the main item in the catalogue of socio-economic woes submitted as evidence of looming upheaval—is demography. The population of the Arab world is expected to grow some 40% over the next two decades. That amounts to almost 150m additional people, the equivalent of two new Egypts. But Arab countries already have the lowest employment rate in the world and one of the highest rates of youth unemployment, with about one in five young people out of work. The median age in the three most populous Arab countries—Egypt, Algeria and Morocco—is 24, 26 and 26 respectively. Even before the downturn in energy prices and the world economy, the prospects of creating enough jobs for all these young workers as they enter the labour market looked remote.

It is not for want of trying. Arab governments are acutely aware that too much of the growth in their economies has been driven by oil, property and tourism. They know, and keep saying, that they need to address these imbalances. In June last year Qatar published an ambitious economic "vision" for 2030. At the beginning of this year Abu Dhabi followed suit with a 2030 vision document of its own. Grand strategies such as these voice all the fashionable aspirations about improving skills, freeing the labour market, shrinking the role of the government and diversifying ahead of the day when the oil and gas will eventually run out. But the governments have been saying this sort of thing for decades, and the results are decidedly mixed.

Saudi Arabia has invested heavily in downstream energy activities, creating big industrial cities. Dubai, with relatively little oil and gas, seemed until the recent crash to have become a successful business, shopping and tourism hub somewhat like Singapore or Hong Kong. Kuwait pioneered the idea of

safeguarding its own economic future by becoming a long-term investor in the economies of others. Sven Behrendt of the Carnegie Middle East Centre in Beirut notes that the huge and increasingly sophisticated sovereign-wealth funds of the Gulf states have for the first time turned Arab countries into a big force in the world economy as strategic investors and not just as suppliers of oil. Some of the countries that lack oil but are close to European markets and influence, such as Morocco and, especially, Tunisia, have begun to create diversified economies.



And yet economic reform, difficult anywhere, is especially hard for the *rentier* economies and authoritarian polities of the Arab world. Sufyan Alissa of the World Bank points out that both the oil- and non-oil states depend disproportionately on collecting rents—if not from oil then in some other form, such as remittances or foreign aid or loans. Such rents, he argues, are used to provide a temporary cushion against economic pressures, preserve the privileges of the elite and buy continued loyalty to the state. At the same time reform is hampered by chronic weaknesses in the government bureaucracy, defective judicial systems, a lack of political transparency or accountability and the vested interests of those who benefit from the existing arrangements.

Having it too good

It follows that when rents increase, the incentive to tackle underlying economic problems diminishes. When oil prices are high, grumbles Ahmed Heikal of Citadel Capital, a private-equity group based in Egypt, governments become less enthusiastic about encouraging private investment. In a study for the Carnegie Middle East Centre, Ibrahim Saif, an economist, notes that the long boom in oil prices which began in 2002 undid many of the good intentions of the Gulf states.

Until then they had been contemplating raising taxes and opening more of the economy to competition in order to deal with mounting budget deficits. But the rising oil price allowed them once again to avoid grasping the nettle of reform. Oil revenues in 2006 contributed a bigger share (86%) of government revenue in the GCC countries than they did in 2002 (77%), and domestic taxes, on average, amounted to less than 5% of GDP.

It seems unlikely, then, that another spike in the oil price will enable even those Arab countries that enjoy the mixed blessing of hydrocarbons to create balanced economies capable of providing enough work for their fast-growing populations. Barring some miracle, a large proportion of Arabs now entering adulthood face hard times and long periods of joblessness ahead, in societies that have systematically blocked peaceful, institutional avenues to political change. That is why so many analysts conclude that something has to give. Will the mass of Arabs continue to bite their lips and buckle under? Or is there a danger of an eruption?

How to stay in charge

Jul 23rd 2009

Not just coercion, sham democracy too

AFP



The gentler side of Kuwaiti politics

A LOT of the wounding comparative statistics trotted out to demonstrate the backwardness of the Arabs appeared first in the Arab Human Development Report of 2002. Its stark findings influenced the design of the Bush administration's Middle East Partnership Initiative. In the Arab world itself the report owed its resonance to the fact that it was written not by Western technocrats but by a team of Arab academics. The lead author was Nader Fergany, encountered earlier in this report berating the Americans as "the new Mongols" of the Middle East.

Now director of the Almishkat Centre for Research and Training in Cairo, Mr Fergany is no less furious with the Arab regimes, which he accuses of doing everything in their power to obstruct democracy and social justice. In most Arab countries, he says, the political order is oppressive and democracy a sham, a hollow system incapable of accommodating the vitality of the people. Egypt's ruling party (no, he corrects himself, "the party of the ruler") has no popular support and "the so-called legitimate opposition parties are essentially dead corpses."

Though the local details vary, most Arab regimes maintain their power in remarkably similar ways. At the apex of the system sits either a single authoritarian ruler, be he a monarch or a president, or an ever-ruling party or royal family. The ruler is shored up by an extensive *mukhabarat* (intelligence service) employing a vast network of informers. One retired Egyptian diplomat, speaking unattributably, puts the size of his own country's internal-security apparatus at about 2m people.

A second instrument of control is the government bureaucracy. With no rotation of power, Arab countries have blurred the distinction between ruler and state. Bloated civil services, says Brookings's Mr Pollack, provide the regimes with a way to dispense patronage and pretend-jobs to mop up new graduates. The size of these administrative behemoths is staggering. In 2007, he reckons, Egypt's civil service was about 7m strong, and as a proportion of their population the Gulf oil producers' public-sector payroll is higher still.

Elections galore, signifying nothing

And yet, strange to say, one of the regimes' most effective instruments of control is the elaborate system of democracy—sham democracy, that is—they have devised in order to channel and contain political dissent. Most Arab countries have parliaments and hold formal elections. In recent years national constitutions have been earnestly revised, and then revised again. The catch is that the parliaments have few powers and the elections are rigged to ensure that the ruler or his party cannot be unseated.

The few half-exceptions merely prove the rule. In May Kuwait made headlines when for the first time four women were elected to parliament, a genuinely rambunctious institution. But Kuwait's politics limp from crisis to crisis because the ever-ruling al-Sabah family refuses to let parliament hold its senior members, such as the prime minister, to account. When it threatens to, the emir dissolves parliament or the government resigns.

In Lebanon the election last month was an unrigged, hard-fought affair. But since Lebanon is a system of confessional baronies, no government wins full control of it through the ballot box. The strongest military force in Lebanon is not the national army but the militia run by Hizbullah, which is part of the opposition. So the convincing victory won by the pro-Western coalition led by Saad Hariri will not stop Hizbullah from controlling large parts of the country and having a big say in policy towards Israel.

That said, Mr Fergany does the opposition parties of the Arab world an injustice when he calls them "corpses". The Muslim Brotherhood is a powerful force in Egypt, even if it is not allowed to contest elections openly. Arabs who take part in opposition politics have few illusions about their ability ever to win power but hope that they can influence debate on the margins. Mahmoud Abaza, the leader of Egypt's venerable liberal party, the Wafd, says that neither his organisation nor the ruling National Democratic Party has any impact on legislation: laws are written by technicians and the job of the parliament is to provide a rubber-stamp. But he is proud of the role his party newspaper has played in provoking debate about political reform.

Reuters



Assad moves at his own pace

Besides, there are Arab countries with livelier parties than Egypt's. The Party for Justice and Development (PJD) in Morocco is a sophisticated movement with a large following and an aspiration to emulate the AK, the moderately Islamist party that has been so successful in Turkey. Indeed, Morocco has a long tradition of multi-party politics in which both secular and religious parties (though some of the latter are banned) have been allowed to flourish. In Algeria, too, a rich array of serious-minded parties is allowed to compete for parliamentary seats.

Permission to be a contender, however, should not be confused with an opportunity to win, and still less to govern. For all Morocco's long tradition of multi-party politics, it is the instincts of the king and the machinations of his palace that ultimately determine national policy. And in Algeria's election earlier this year the fact that five candidates ran against President Abdelaziz Bouteflika did not stop him from winning a third term with an entirely implausible 90% of the vote.

Let's all join together and fear Islam

If you are an autocrat but want to run a system of sham democracy, it is a boon if the opposition is divided. And so, in the Arab world, it is. Islamist parties stand on one side of the divide and secular ones on the other. In theory, your hold on power would be weaker if there were a danger of the secular and religious opposition joining forces. But so far they have not, and for a probably insurmountable reason: the secular parties fear the Islamists more than they dislike the present regimes.

By comparison with the regimes and the Islamist movements, the secular opposition parties are at a particular disadvantage. Their awful dilemma is dissected in a forthcoming book ("Getting to Pluralism", Carnegie Middle East Centre) by Amr Hamzawy and Marina Ottaway. The regimes, the authors point out, can offer their supporters the patronage of the state. The Islamists can offer theirs charity and social services through the mosques. The secular parties have no such favours to dole out. Nor, in truth, do they have much ideological fire in their bellies. The causes that propelled them in the glory days are either redundant (independence from colonial masters) or discredited (the pan-Arabism of Gamal Abdul Nasser or the Baathism of Syria and Iraq).

Moreover, given a choice between the status quo and the uncertain future promised by the Islamists, the instinct of such parties is to stick to the devils they know, however much it costs them at the polls. The 2005 election that delivered 20% of seats in Egypt's parliament to the Muslim Brotherhood gave a mere 5% to the four secular opposition parties.

Still, if the secular opposition parties are weak, their Islamist rivals are not necessarily as lusty as they

seem. In the 1970s, says Mr Hamzawy, they built up a "mighty machinery" of social services, providing the needy with the practical help the regimes seemed unable to deliver. More recently Islamist parties have found themselves on the right side of the religious revival sweeping the Arab world. Even so, the going is becoming harder. Arabs are not becoming less pious, but the pious are beginning to question the point of participating in politics.

One reason for this is simple exhaustion. Exclusion from power begins to sap the motivation of even the most ardent of parties. In countries such as Morocco, where the Islamists are permitted to compete but never to win, voters are losing faith in the ability of the PJD to deliver even the mild reforms it proposes, such as more transparent and accountable government. In most Arab elections turnout is falling. And in Egypt and Jordan the Muslim Brotherhood has had to endure unpredictable cycles of repression and inclusion as the fears and whims of the regimes change. Jordan's King Abdullah has sometimes let Brotherhood members sit in cabinet and at other times moved against them, occasionally by squashing the vital social and charitable activities on which much of their popularity rests.

Another problem for the Islamists is that they, too, are prey to troubling ideological doubts. The PJD has debated endlessly what the "Islamist" label should mean. In meetings with Western journalists its leaders sometimes disavow it altogether and describe themselves as mildly pious social or liberal democrats. For some time now the Brotherhood in Egypt has been split over whether to stick to the simple, familiar slogan that has served them so well, that "Islam is the solution", or to elaborate a more detailed political programme, containing potentially divisive policies on economic management, women's rights and the rights of Egypt's large Coptic Christian minority. The mildly Islamist ruling AK party in Turkey is seen by the PJD as a model to emulate but accused by the Brotherhood of selling out.

Beyond these ideological perplexities the Islamists are hampered because, for all their popularity compared with both the regimes and the secular opposition parties, their popular support in the Arab world has a ceiling. On the basis of recent election results, Mr Hamzawy puts this at about 20% of the electorate, with some evidence from polls in Jordan and Morocco of a downward trend. In order to secure a majority, he argues, the Islamists need to form alliances with secular movements. But they are deterred from doing so by a mixture of arrogance and fear of diluting their simple message of adherence to the faith. With the Islamists disdaining the secular opposition and the secular parties afraid of the Islamists, the opposition in many Arab countries has checkmated itself.

From generation to generation

If opposition politics are stymied, what about change from within the regimes themselves? One hope has been that the grip of authoritarian rulers would relax as power passed down the generations, bringing to the fore a new brand of leaders with a more modern outlook. In some cases it has. Morocco's King Muhammad is more of a moderniser than was his father, King Hassan. Saudi Arabia's Abdullah, who eventually ascended the throne in 2005 at the tender age of 80, has cautiously accelerated the careful reforms he initiated during his time as crown prince when his even older half-brother Fahd was king. Earlier this year an administrative reshuffle caused a flutter when Nora al-Fayez was appointed as a deputy minister, the highest government job ever to have been filled by a woman.

In other cases, however, the passing of the torch to a new generation has brought mainly disappointment. Jordan has not become conspicuously more liberal under King Abdullah than it was under King Hussein. When Bashar Assad, educated as an ophthalmologist in London and married to a Syrian born and raised in Britain, assumed power in 2000 after the long reign of his ruthless father Hafez, he was greeted by some in the West as an internet-savvy liberal reformer, promising a breath of fresh air. But an all-too-brief "Damascus spring" did not last long.

At the beginning of 2001 more than 1,000 Syrian activists signed a declaration calling for political reform and an end to the state of emergency that has been in effect since 1963, ostensibly because of the conflict with Israel. The new president's reaction was to take fright and have many of the most prominent signatories arrested. In 2005 a few brave souls renewed their demands in a "Damascus Declaration". This led to another crackdown.

In March this year President Assad did at last hint that a cautious economic liberalisation now under way in Syria might be accompanied by political changes, such as the creation of an upper house that would give a bigger voice to the opposition. But all that, he added, would come about "gradually, at our own pace". Will change at the leaders' pace be fast enough?

The fever under the surface

Jul 23rd 2009

A silent social revolution

AFP



Inculcating the habit of protest

PRESIDENT ASSAD'S decision to nip the reform movement in the bud in 2005 should not have surprised Syria's would-be democrats, for this was a moment of extreme danger to the regime. Influential voices in Washington, DC, were urging Mr Bush to finish what he had started in Iraq by toppling Syria's leadership too. And in neighbouring Lebanon, which Syria had long treated as a vassal, the assassination of Rafik Hariri, a popular former prime minister, had triggered massive protests. Many Lebanese blamed Syria for Mr Hariri's murder. Their spontaneous protests—one of the biggest manifestations of "people's power" the Arab world had witnessed—came to be known as the "cedar revolution". Within months (and with the prodding of France and America) the cedar revolution forced Mr Assad to withdraw his army from Lebanon, after a stay of 30 years.

The sort of people's power on display in Lebanon in 2005 has not yet expressed itself on a similar scale anywhere else in the Arab world. All the same the habit of protest is gaining ground. Three years ago, in a stand-off between the government and parliament over an electoral law, student demonstrators in Kuwait camped out in front of the parliament. In the Sinai peninsula, Bedouin tribesmen demanding property rights from the Egyptian government have staged embarrassing sit-ins on the border with Israel. And on April 6th 2008 a strike by textile workers in a city north of Cairo was joined by young activists and billowed into a cloud of protests that spread across Egypt.

Despairing of the possibility of change from above, says Mr Fergany, Egyptians from every social class except the plutocratic clique at the heart of the regime are taking their political and economic demands to their streets and workplaces. "Hardly a day passes without scores if not hundreds of protests in different areas of the country," he claims.

A spirit of Arab protest is also alive in the blogosphere. Like young Iranians, young Arabs are tuning into social-networking sites such as Facebook, posting videos on YouTube and writing blogs, some of them with overtly political themes. When Saudi Arabia sent a men-only team to the Beijing Olympics last year Saudi women staged a protest and posted images of it on the internet. To mark women's day in 2008, a courageous Saudi activist, Wajeha al-Huwaider, used YouTube to post a video of herself breaking the law by driving a car. Wael Abbas, an Egyptian blogger, has used his site to publish video footage showing the police beating up protesters, torturing detainees and rigging vote counts. Egypt's April 6th movement started life as a Facebook page. Mr Abaza of Egypt's Wafd party says that the Islamists already had their network of mosques but that the web is now giving young liberals a network too.

Still, these are slender straws from which to construct a claim that the Arab world is in a "pre-

revolutionary" condition. "There is something taking place, it's new, it's interesting—but from there to see revolution? No." So says one Cairo-based social scientist, requesting anonymity.

The lot of young people in the Arab world may be difficult, but their woes should not be exaggerated. In global surveys young Arabs turn out to be relatively optimistic about the future. The frustrations they experience as they turn into adults—notably the years of "waithood" that are typical before they find jobs and, therefore, before they can marry and enjoy sex (premarital relations are taboo in much of the Arab world)—are hardly the stuff of which political revolutions are generally made. Though some young people may look to politics to redress their grievances, the response of many is merely to retreat into the private sphere.

Moreover, such protests as have taken place have been easy to snuff out. When the Egyptian movement inspired by the April 6th 2008 protests tried to organise a follow-up "day of anger" on the same date this year, the effort fizzled. Pre-emptive arrests and a massive police presence kept would-be demonstrators at home.

As for the blogosphere, internet penetration in the Arab world is low by global standards (and compared with Iran), and bloggers are all too easy to identify and intimidate. In April an Egyptian blogger, Ahmed Mohsen, was detained on the Orwellian charge of "exploiting the democratic climate to overthrow the government".

The last popular revolution in the Middle East took place in 1979 in Iran, after liberal, left and Islamist forces combined to overthrow the shah, a man who had tried recklessly to force his own version of secular modernity on a complex, traditional and devout society. Last month's Iranian election caused a new eruption of popular protest in Tehran. Nowhere in the Arab world, where the system of state control tends to be more subtle and the regimes' opponents are divided, looks ripe for an upheaval of this sort.

Green shoots of change

However, political revolution is one thing, social revolution another. If the prospect of the first looks far-fetched, the second is already in train in every Arab society. Fertility is in decline. More people, especially women, are becoming educated. A young labour force has new aspirations. Arabs know far more than they ever used to about the world and about each other, thanks to a transformation in the region's media spearheaded by satellite television. Private investors and entrepreneurs are playing a growing role in economies that used to be dominated by the state. Taken together, all this has produced what Ahmed Galal, a distinguished economist and managing director of the Cairo-based Economic Research Forum, calls "a fever under the surface".

Though none may be a game-changer on its own, all these influences have political consequences of some kind. For example, Abdel Monem Said Aly, director of the Al Ahram Centre in Cairo, believes that the growing economic role of the private sector is changing the way Egypt is governed. For the first time in decades, he says, the private sector employs more people and invests more in the economy than the government does. This is creating greater transparency: the government budget is nowadays submitted for debate to the Shura Council (parliament's upper house), not just handed down from on high. Business associations and chambers of commerce are increasingly involved in public policy in Morocco, Tunisia, Egypt, Jordan and Kuwait. And an unprecedented number of businessmen now sit in Arab parliaments. In Egypt's (with 454 elected seats, including ten presidential appointees) the number grew from 37 in the five-year term starting in 1995 to 68 in the term starting in 2005.

Since the parliaments the businessmen are joining are pretty toothless affairs, it would be wrong to make extravagant claims for changes like this. Businesspeople do not enter politics in order to antagonise the governments on whose patronage, permissions, licences and other favours they depend. "No politics—that is my golden rule," was the telling opening remark of one businessman interviewed for this special report. Even the few who do speak out on politics tend to emphasise the need for "modernisation": of procedures, regulations, education and training. That is hardly the same thing as political reform. Nonetheless, the expanding role of business means that the circle of consultation and decision-making has grown beyond the coterie that used to call the shots.

Eyevine



The power of al-Jazeera

A far greater change over the past two decades is that Arabs today enjoy unprecedented access to information and, especially, debate. Even as late as the early 1990s, watching television in the Arab world was a dispiriting business. What passed for coverage of news and current affairs was solemn footage of presidents and emirs receiving visitors and cutting ribbons at official events.

All this changed utterly after 1996 when the emir of Qatar, Sheikh Hamad bin Khalifa, established the al-Jazeera television station in his capital, Doha. In return for choosing not to dwell overmuch on the blemishes of Qatar itself, the new station was allowed to broadcast proper, hard-hitting news from everywhere else in the Arab world. With a staff of zealous journalists, many of them Palestinians, it went on to do so with gusto and quickly spawned many imitators and competitors.

Cognitive anarchy

After 1996, says Wadah Khanfar, al-Jazeera's (Palestinian) director-general, "everything exploded"; the Arab world entered a period of "cognitive anarchy". The consequence of it all, in the view of Marc Lynch, an academic at George Washington University in Washington, DC, has been the birth of "a new Arab public". After the al-Jazeera phenomenon, he thinks, Arabs will no longer put up with the old tradition of enforced public consensus. They are making their leaders explain and justify themselves as never before. And although it is no substitute for a proper electoral democracy, this is building the underpinnings of a new kind of pluralist politics "rooted in a vocal, critical public sphere".

Its many critics would be surprised to hear that al-Jazeera was a force for progress. The station's screening of the hate videos Osama bin Laden smuggles out of hiding is controversial. So—in the West—is the vehemence of its support for the Palestinian cause. During Israel's Gaza war this year al-Jazeera broadcast the sort of unedited footage that most stations deem too gruesome to air. Even in times of relative calm its Arabic-language coverage (the English channel is milder) of the conflict is relentless and partisan. Unlike al-Arabiya, its Saudi-sponsored rival, it makes little effort to cover Palestine in a manner a Western audience would consider balanced. To some degree Mr Khanfar acknowledges this. His journalists are professional, he insists, but there is a limit to how far the station can offend "the strongest collective feelings" of the Arab world.

Then again, Palestine is the uniting and almost sacred cause of the Arab world. If you judge al-Jazeera by the rest of its coverage, a different picture emerges. In 2006 Mr Lynch published a study of the station's reporting of Iraq since the late 1990s ("Voices of the New Arab Public", Columbia). Like Palestine, Iraq is a story that has gripped and preoccupied Arabs everywhere. But on this one they have not formed a single view. His conclusion is that al-Jazeera reflected all sides of the bitter arguments that divided Arabs over issues such as the behaviour of Saddam, the Western sanctions, the American invasion and the legitimacy—or not—of the Iraqi government that followed. Both al-Jazeera and its rivals provided detailed and enthusiastic coverage of the Iraqi elections of 2005, despite the conviction of many Arabs outside the country that a vote held under American occupation had to be bogus.

Moreover, this open-minded approach to reporting and analysis did not apply only to Iraq and its vicissitudes. From 2003 onwards al-Jazeera's reporters and talk-show hosts put themselves at the heart of the American-initiated debate about political reform in the Arab world.

The station looked closely at the G8's American-inspired Greater Middle East Initiative, giving airtime to American as well as Arab talking heads. In one online al-Jazeera poll in 2003, 84% of viewers said that Arab governments were neither sincere about reform nor capable of bringing it about. When President Bush said he had been inspired by reading a book on democracy by Natan Sharansky, an Israeli politician (and former Soviet dissident), al-Jazeera interviewed the author and asked him how his book might apply to the Arab world. It did this even though many Arabs, reformers included, remain deeply shocked by al-Jazeera's now well-established practice of letting Israelis appear on its shows.

Where broadcasting has led, the printed press has followed. The meek official newspapers that used to have the field to themselves are facing new and more outspoken private competitors. Even the most authoritarian regimes accept that it is no longer possible to suppress all information and stifle every criticism. Sarah Leah Whitson, Middle East and North Africa director at Human Rights Watch, a monitoring group based in New York, returned from a recent visit to Libya reporting the stirrings of a new *glasnost*. Although the regime remains firmly in control, new newspapers were being allowed to nibble away at sensitive subjects, with one carrying pages of editorials exposing bureaucratic misconduct and corruption.

Naturally, such freedoms have their carefully circumscribed limits. Al-Jazeera and al-Arabiya are careful not to antagonise their respective Qatari and Saudi sponsors. They are vulnerable to high Arab politics: al-Jazeera has recently been muting its criticism of Saudi Arabia, probably at the behest of the Qatari royal family. Moreover, there is always a danger that freedoms extended at the whim of a ruler can be withdrawn.

The Syrian Media Centre, a private monitoring organisation, told Reuters in May that the Syrian authorities blocked 225 internet sites in 2008, up from 159 in 2007. They included several Arab newspapers and portals, Amazon, Facebook and YouTube. In April Human Rights Watch noted that a new media law pending in the United Arab Emirates would tighten restrictions on media freedom. And the editor of a Qatari newspaper, speaking privately, told *The Economist* that laws were anyway not the main impediment to press freedom in his country. What checked his pen was the certainty of social exclusion if he offended the establishment.

Another change with implications for politics is that the new Arab public now tuning into stations like al-Jazeera is better educated than ever before. Over the past five years, reckons Vincent Romani in a paper for the Crown Centre for Middle East Studies at America's Brandeis University, the GCC countries have spent at least $50 billion on higher education in an effort to buy these traditional societies a place in the global knowledge economy. Qatar has attracted half a dozen American and two Australian universities to its Education City in Doha; Dubai's International Academic City houses branches of 32 foreign universities; and Saudi Arabia's King Abdullah University of Science and Technology is due to open later this year with a personal royal endowment of $10 billion.

These are huge investments, even if their concentration in one rich corner of the Arab world will limit their impact. Citadel Capital's Ahmed Heikal says that such efforts need to be replicated throughout the region. "In an area of our size we cannot have a single centre for excellence in education," he says. So far, however, higher education in the Arab world at large has produced few critical minds. Most Arab universities are victims of "massification": Egypt shoves 30% of the relevant age group into university, of whom fewer than half graduate. Outside the private sector standards are abysmal.

Liberals and conservatives

If the "fever under the surface" does eventually transform Arab politics and society, what direction will the change take? It is a mistake to assume that trends such as greater media freedom push invariably in a liberal direction. On the contrary, Arab conservatives have a record of exploiting new communications technology at least as well as liberals, and often better.

Arabian Eye

Well before the advent of the internet, radical imams made brilliant use of videocassettes to spread their teachings, drowning out the sermons of milder clerics. The Muslim Brothers, especially the younger ones, are active bloggers. And the messages being pumped into the airwaves by satellite television stations are by no means all congenial to the West. The new media have created a vast audience for Shia firebrands like Hassan Nasrallah, the secretary-general of Hizbullah, and Sunni radicals like Sheikh Yusuf Qaradawi, a Qatar-based preacher who may not be a

jihadist but is no liberal either. In some Arab countries, indeed, democracy and liberalism push in opposite directions. There are places where the lot of women has deteriorated precisely because the regimes have felt the need to pay more heed to the social conservatism of the Islamist opposition.



A place in the knowledge economy

Another mistake is to exaggerate the degree to which Arabs want to participate in politics at all. For the most part this remains a minority sport. Some of the most significant trends among Arabs are therefore not captured by political analysis. And those who stay silently out of politics are not all secular liberals waiting for times to change. A growing pattern is for Arabs with strong and even extreme religious ideals to eschew long-established political movements, such as the Brotherhood, and devote themselves to personal lives of extreme piety, a phenomenon that has come to be labelled "apolitical" or sometimes "scientific" Salafism.

The Salafist movement champions a return to the pure Islamic traditions practised by Muhammad and his contemporaries at the time of Islam's birth (the al-Salaf al-Salih are "the pious forefathers"). Like al-Qaeda, the apolitical Salafists adhere to a Utopian vision of Islam mastering the world. But they do not pursue *jihad* against the West and refrain from attacking the prerogatives or legitimacy of the Arab regimes. They do not form political organisations, yet they are organised: when last year hundreds of people were buried under a rock slide in Cairo, commentators observed that Salafist groups were quicker than the Brotherhood to help the smitten.

Politics by stealth

Because they do not usually criticise the regimes, the apolitical Salafists are tolerated by the security services and so enjoy an advantage in spreading their message. They also have ample funds. Although the Saudi government denies giving active support to such groups, much of their inspiration, as well as generous amounts of private—and princely—money, seems to come from Saudi Arabia. Egyptians remark that a lot of their countrymen who spend a few years working in Saudi Arabia return home as devout Salafists.

Personal religious choices such as these are not directly political, but the sum of these choices influences the trajectory of the Arab world. Extreme social conservatives, obsessed with ritual, purity and often sex, the Salafists are unfriendly to liberal causes such as female emancipation. Moreover, there is reason to wonder how long their present quietism will last. Issandr el Amrani, an independent analyst, calls them "incipiently *takfiri*". Like al-Qaeda, in other words, they tend to regard those Muslims whose practice of the faith falls short of their own exacting standards as *takfir*—unbelievers or even apostates. Experience suggests that this sort of intolerance can all too easily give rise to political violence.

In the eyes of the regimes, Islam itself is a potential danger, because it is a source of authority and wellspring of action which the media revolution has put beyond the control of governments. Religious fervour is growing among Arabs at a time when venerable religious institutions with the imprimatur of governments, such as Al-Azhar in Cairo, are no longer able to lay down doctrinal law and command automatic obedience. Access to the airwaves and the internet has democratised Islam, forcing rival interpreters of the faith to compete on their own merits for an audience that crosses sects and borders. And this cacophony inside Islam is itself part of a wider, and surprising, paradox of today's Arab world, which is that, behind the stagnation of its formal politics, it is engaged in a fierce and potentially history-altering battle of ideas.

Which way will they go?

Jul 23rd 2009

A great struggle for ideas is under way in the Middle East

AFP



The Hizbullah factor

“THE Arab world is more or less a vicious circle. None of its problems will be solved soon. All these troubles have the capacity to reinvent themselves.” So says Ali al-Din Hillal Dessouki, a former minister and senior figure in Egypt’s ruling party. This special report opened by arguing that the causes of conflict in the Arab world—the competition for energy, the conflict with Israel, the weakness of Arab statehood and the stagnation of politics—are taking on the characteristics of a chronic condition. But they are not just chronic. They are also connected to each other, and self-reinforcing.

One cause of Arab woes is the interference of outsiders. The end of colonialism in the mid-20th century did not leave the Arabs free from external meddling. During the cold war, anxiety about the vulnerability of oilfields sundered the region into American and Soviet camps, and the cold war’s end brought the briefest of respites. At present at least four non-Arab powers—America, Israel, Iran and to a much lesser degree Turkey—play an active part both in shaping relations between the Arab states and influencing their internal politics.

Even after its chastening experience in Iraq, the strongest of these is America. The superpower that once saw its strategic role in the region as an “offshore balancer” has since the Gulf war of 1991 been very much onshore, with bases in the Persian Gulf and, for the time being still, a large army and air force in Iraq. America continues to have a vital interest in the region’s oil and remains the chief armourer and presumed protector of Saudi Arabia and its GCC neighbours. Because America is also Israel’s great defender, American policies have a sharp impact on all the Arab states affected by the Palestine conflict, on the fate of the Palestinians themselves and on the internal standing of regimes that are seen as American allies or dependants.

However, America’s brief moment of unchallenged dominance, ushered in by the collapse of the Soviet Union and sealed by the ease with which the first President Bush summoned a grand regional coalition (Syria included) against Iraq in 1991, did not last for long. The younger President Bush’s invasion sent American prestige into a dizzying fall. It also created an opening for Iran, another non-Arab power with vital interests in the region, to promote its own ambitions.

Given the opacity of Iran’s politics, the extent of those ambitions is hard to fathom. Some Iran-watchers fear that the country aspires to fulfil the vision of Ayatollah Khomeini, its revolution’s founder, and export a brand of theocratic government to its Arab neighbours. But an equally plausible counter-argument is that Iran is motivated by insecurity rather than ambition, seeks only to secure its rightful place in the region and is therefore susceptible to the overtures of a President Obama who has abandoned the reflexive antagonism of the Bush years. Or it is possible, in light of the recent upheaval, that both points

of view are represented within the regime and that neither has yet prevailed.

For as long as this riddle remains unanswered, the eastern part at least of the Arab world seems condemned to remain an arena of rivalry between America and Iran. And like the cold war, this struggle has an ideological dimension. Arabs may be excluded from participation in real politics at home, but Mr Lynch's "new Arab public", forged by the al-Jazeera phenomenon, cannot but be vicarious participants in this argument between great powers.

Which way the majority will eventually turn is impossible to say. For the present, al-Qaeda's vision of endless war against the West and a return to the simple verities of Islam's first century appears to have lost the glamour it acquired after the felling of the twin towers. America's reputation suffered a terrible beating in the sands of Iraq, but so in the end did Osama bin Laden's as the Arab public, Sunni as well as Shia, recoiled from al-Qaeda's atrocities, which killed more Muslims than infidels.

The waning of al-Qaeda's star does not mean that Islam itself is losing its potency in Arab politics. For millions of Arabs it goes without saying that the faith should have the main or even final say in the ordering of society. But in the Sunni world political Islam comes in a bewildering variety of forms. Shia thinking on the political role of Islam is divided, too. In Iraq, the only large Arab country where Shias outnumber Sunnis, the Shia religious establishment has not embraced the Iranian idea, invented by Ayatollah Khomeini, of setting a supreme Islamic jurist above the elected leadership of the state.

The opium of the Arabs

With a world of alternatives to choose from—authoritarianism, democracy, secularism, different brands of Islamism—it is a pity that Arab perceptions are overshadowed by one issue that ought in principle to have nothing to do with the way they are governed. This is Israel. Egypt and Jordan have made peace with Israel but the conflict shows no sign of abating. Thanks in part to al-Jazeera, it looms larger than ever in Arab minds (see chart 6), and this distorts the internal Arab debate about politics and government.

One country that has understood this well is Iran. Far from the front line, with none of its own interests directly at stake, Iran has turned the Palestinian conflict into a tool against America's Arab allies. By ramping up its words and deeds against the "Zionist regime" and taunting the Arab governments for their relative pusillanimity, Iran reaches over the heads of the Arab leaders directly to the passions of the street. This is desperately uncomfortable for the pro-American regimes. Lacking the legitimacy democracy might confer, they rightly dread being branded as appeasers who have sold out the Palestinians at the behest of a resented superpower.

The one uniting cause
6
How important is the Palestinian issue in your priorities?
Most important 38
In top 3 priorities 38
%
Not in top 5 priorities 1
In top 5 priorities 23
Source: Annual Arab Public Opinion Survey 2009, University of Maryland with Zogby International. Countries surveyed: Egypt, Jordan, Lebanon, Morocco, Saudi Arabia, United Arab Emirates

The job of the Arab moderates was made all the harder by Israel's recent wars in Gaza and Lebanon. Shocking television footage transformed both of these local fights into moments of pan-Arab and even pan-Muslim rage. Egypt, Jordan and Saudi Arabia, which on both occasions made it too clear for too long that they would not mind seeing Iran's allies in Hizbullah and Hamas take a beating at Israel's hands, had to pay a heavy price in public opinion.

Amal Saad Ghorayeb, a political scientist at the American University of Beirut, takes an extreme view of the consequences of the two wars. In their wake, she says, many Arabs have come permanently to reject the very idea of peaceful coexistence with Israel. More: this conflict now eclipses familiar internal quarrels between secular and religious, Sunni and Shia or left and right. Arabs, she says, are judging their leaders less on their democratic credentials or domestic behaviour and more by their will and capacity to "resist" Israel and America. That is why, in Lebanon and beyond, Hizbullah is admired even by its enemies for having fought Israel to a standstill in 2006. Ms Ghorayeb sees Hizbullah as a state within a non-state—"a microcosm of the successful Arab state we haven't seen anywhere else in the Arab world: efficient, uncorrupted and self-sufficient".

For more than a year this notion—that the Arabs are divided by an internal cold war between a "resistance" front sponsored by Iran and a "moderate" front sponsored by America—has been the prevailing conventional wisdom. But how long, especially after Iran's recent internal upheavals, will it

continue to be true?

Mona Eltahawy, an Egyptian columnist who writes from New York, calls Israel "the opium of the Arabs": an intoxicating way for them to forget their own failings, or at least blame them on someone else. Arab leaders have long practice of using Israel as a pretext for maintaining states of emergency at home and putting off reform. At a meeting in Amman in 2005, when an American official suggested that it was time for an Arab democratic spring, the Pavlovian response of Amr Moussa, secretary-general of the Arab League, was this: "There will be no spring or autumn or winter or summer without solving the Palestine problem. We want our friends in the United States to know that this is the consensus in the region."

How disconcerting, then, must be the advent of an American president who shows signs of heeding Arab complaints. By expressing impatience with Israel and empathy for the "intolerable" plight of the Palestinians in his speech in Cairo last month, and forcefully reiterating his promise to withdraw America's armies from Iraq, Mr Obama plainly hopes to open cracks in the resistance front. It may be no coincidence that within a week of his big Cairo speech Lebanese voters re-elected a pro-American government and withheld victory from a coalition led by Hizbullah.

Come the revolution?

The failure of Mr Bush's freedom agenda suggests that no amount of American soft power is going to persuade the regimes to embrace democracy. The presidents, kings and emirs know that this could cost them their jobs. And as this special report has argued, it is far from clear what sort of future Arabs would opt for if they had a free choice. After all, the ultra-conservative Saudi royals may well be more liberal than the ultra-conservative Saudi people. Perhaps the best to hope for is that a rebalanced American diplomacy will draw some poison from Palestine and Iraq and prevent the case for reform being drowned out by the calls for "resistance".

And then? In a much-noticed essay in 2004, Sadik Al-Azm, a professor of philosophy at the University of Damascus, said the modern Arabs had become "the Hamlet of our times, doomed to unrelieved tragedy, forever hesitating, procrastinating and wavering between the old and the new". Mr Dessouki, the former minister, says that the advocates of democracy in the Arab world "are not willing to pay the price of change".

That seems too bleak. The Arab world faces chronic problems, but its people are no longer docile or passive. They are starting to speak out, to strike, even to take to the streets in pursuit of their demands. But a revolution? "You need an occasion for a revolution," notes Paul Salem, director of the Carnegie Centre in Beirut. "The volcano is there, but it is held in place by the heavy mountain of the Arab state, which oppresses its people very well and has learned how to play the game of elections." Will change come? Some day.

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Jul 23rd 2009
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Papers from the Carnegie Middle East Centre:

"The Challenge of Economic Reform in the Arab World", by Sufyan Alissa

"Fighting on Two Fronts: secular parties in the Arab World", by Marina Ottaway and Amr Hamzawy

"When Money Talks: Arab Sovereign Wealth Funds in the Global Public Policy Discourse", by Sven Behrendt

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Offer to readers

Jul 23rd 2009
From The Economist print edition

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Monetising social networks

Tweeting all the way to the bank

Jul 23rd 2009 | SAN FRANCISCO
From The Economist print edition

Can virtual communities make billions of dollars from their millions of connections?

Illustration by Claudio Munoz



WHENEVER the founders of Twitter, a social-networking service, have been asked about how much revenue they expect to generate from their creation, they have politely deflected the question. So when a hacker recently leaked documents after gaining access to the private e-mail accounts of a Twitter employee and the wife of one of its founders, the blogosphere was abuzz. The haul included a spreadsheet showing revenues reaching $140m by the end of 2010, up from $4.4m this year. Twitter dismissed the document as out of date, but it showed the firm's owners believe it has the potential to mint serious money.

Their confidence is not surprising: Twitter is now thought to have around 23m users. Other social networks have also been piling on members. Facebook, one of the biggest networks along with News Corporation's MySpace, has seen membership leap from 100m in August 2008 to some 250m today. With the number of people online worldwide expected to go from 1.5 billion today to 2.2 billion by 2013, according to Forrester Research, many of these networks will grow like Topsy.

They will also have a profound influence on consumer behaviour, prompting firms to shift a hefty chunk of their marketing budgets in their direction. That prospect has investors salivating. Marc Andreessen, a well-known Silicon Valley figure with stakes in both Twitter and Facebook, believes Facebook's revenues will amount to billions of dollars in five years' time, up from about $500m this year. A recent investment in Facebook by a Russian firm valued it at $6.5 billion. Other venture capitalists have been ladling cash into start-ups developing software applications for these online communities.

Yet some experts point out that although social networks have captured the popular imagination, the managers running them face a delicate balancing act. They need to reconcile a desire to drive up membership as fast as possible—which increases the value of a network to both existing and potential members—with the need to experiment with ways of raising money to fund long-term growth. If they push too hard for revenue in the short term, they might drive away users, undermining a network. Leave it too late to monetise and the business could collapse.

MySpace, which was bought by News Corp in 2005, offers a cautionary tale. It grew rapidly from its

origins as a site focused on members' musical interests into a more eclectic network. But as it expanded, it spent too much time chasing revenue and too little improving its online offerings. Now it is bleeding users and advertising: eMarketer, a research firm, estimates that MySpace will bring in $495m of ad revenue from America this year, 15% less than in 2008. In June Owen Van Natta, the site's new boss, announced plans to cut hundreds of jobs at the bloated operation. He is widely expected to return MySpace to its roots in entertainment.

Executives at other networks stress that their priority is keeping users happy. But they acknowledge that the recession has sharpened interest in generating revenue. Some sites, such as LinkedIn, a professional network that helps its members further their careers, already boast healthy revenue streams. As well as selling job advertising, the site charges users a premium for some career-related services and firms for the use of proprietary software that helps them identify promising candidates. To LinkedIn the downturn is an opportunity to pinch business from weaker rivals, explains Steve Sordello, the chief financial officer of the company, which has been profitable since 2007.

Broader-based social networks such as Facebook and Twitter are reluctant to charge users fees. Instead Facebook is focusing its attention on driving many more marketing dollars to its site. There is a big opportunity here. After all, only a small fraction of marketing budgets are dedicated to social networks today. The networks also have plenty of useful data about their users' likes and dislikes.

But they have one big drawback. Users typically want to hang out with their pals when they are online and so tend to ignore advertisements pushed at them while they are gossiping. The social networks are therefore considered less effective marketing vehicles than search engines such as Google, whose users are seeking information on specific subjects and are more likely to click on ads relevant to their interests. This helps to explain why advertisers will only pay a pittance for page views on many social networks.

To address this issue, Facebook is experimenting with a host of ad formats that enable firms to strike up online conversations within social networks—without tarnishing users' experience, it hopes. Facebook is also targeting e-commerce revenues. These are already a big source of income for some Asian social networks, which take a cut on deals for everything from electronic greeting cards to digital games. In June Facebook launched a stored-credit system that allows users to pay easily for digital goods and services on the site, which pockets a small commission on each transaction. Sheryl Sandberg, Facebook's chief operating officer, says that thanks to its advertising and e-commerce initiatives the social network is on track to increase revenue by 70% this year.

What about Twitter? Embedding advertisements in "tweets", short text messages that can be up to 140 characters long, is unlikely to appeal to users. A better bet would be for the firm to charge corporate users for premium services. For example, it could pocket a fee from businesses for verifying their Twitter accounts, so that users following their postings would know the firms' tweets are genuine. It could also develop a statistical toolkit that measures the effectiveness of tweets in generating sales.

Some analysts have warned that if social networks do not get smarter at generating revenue themselves, they risk seeing the best money-spinning opportunities siphoned off by those venture-backed start-ups. By some estimates, developers working on Facebook applications may pull in as much revenue this year as the site itself. In a report published in May, ContentNext Media, a research firm, concluded that Facebook should think of itself as a shopping mall and start charging developers "rent" to be on its platform. Twitter might ultimately want to follow suit. Such a move could bring in plenty of cash, even if it does appear a bit, er, anti-social.

Virtual worlds for children

Online playgrounds

Jul 23rd 2009
From The Economist print edition

There is life in virtual reality after all

REMEMBER Second Life, the virtual world that was supposed to become almost as important as the first one? Now populated by no more than 84,000 avatars at a time, it has turned out to be a prime example of how short-lived internet fads can be. Yet if many adults seem to have given up on virtual worlds, those that cater to children and teenagers are thriving. Several have even found a way to make money.

In America, nearly 10m children and teenagers visit virtual worlds regularly, estimates eMarketer, a market researcher—a number the firm expects to increase to 15m by 2013. As of January, there were 112 virtual worlds designed for under-18s with another 81 in development, according to Engage Digital Media, a market research firm.

All cater to different age groups and tastes. In Club Penguin, the market leader, which was bought by Disney in 2007 for a whopping $700m, primary-school children can take on a penguin persona, fit out their own igloo and play games. Habbo Hotel, a service run from Finland, is a global hangout for teenagers who want to customise their own rooms and meet in public places to attend events. Gaia Online, based in Silicon Valley, offers similar activities, but is visited mostly by older teens who are into Manga comics.

Not a hit with advertisers, these online worlds earn most of their money from the sale of virtual goods, such as items to spruce up an avatar or a private room. They are paid for in a private currency, which members earn by participating in various activities, trading items or buying them with real dollars.

This sort of stealth tax seems to work. At Gaia Online, users spend more than $1m per month on virtual items, says Craig Sherman, the firm’s chief executive. Running such a virtual economy is not easy, which is why Gaia has hired a full-time economist to grapple with problems that are well known in the real world, such as inflation and an unequal distribution of wealth.

There are other barriers that could limit the growth of virtual worlds for the young, but the main one is parents. Many do not want their offspring roaming virtual worlds, either because they are too commercial or are thought to be too dangerous. Keeping them safe is one of the biggest running costs, because their sponsors have to employ real people to police their realms.

Youngsters are also a fickle bunch, says Simon Levene of Accel Partners, a venture-capital firm. Just as children move from one toy to another, they readily switch worlds or social networks, often without saying goodbye.

Even so, Debra Aho Williamson, an analyst at eMarketer, believes “these worlds are a training ground for the three-dimensional web”. If virtual worlds for adults, which so far have been able to retain only hard-core users, manage to hang on for a few years, they may yet have a second life.

GM auctions Opel

A disputed bid

Jul 23rd 2009
From The Economist print edition

General Motors and the German authorities differ over Opel's future

AFP



THE endgame to decide the ownership of Opel/Vauxhall, General Motors' European unit, has begun. On July 20th three potential suitors submitted their final bids. Two days later GM told the Opel/Vauxhall Trust, an entity set up to run the business and administer a €1.5 billion ($2.1 billion) bridging loan from the German government while the parent company was in Chapter 11 bankruptcy, that it would pursue negotiations with two of them.

GM, which left bankruptcy a fortnight ago, has undertaken to consult closely with the governments of the countries affected, primarily Germany, which is home to nearly half of GM Europe's 55,000 employees, but also Britain, Belgium and Spain. Next week it will report its conclusions to its main shareholder, the American Treasury. A final decision on granting one of the bidders exclusivity should be announced before the end of July.

Of the three bids, the easiest to dismiss was that of Beijing Automotive Industry Corporation. According to people close to the process, the Chinese firm would have presented insuperable difficulties over the transfer of intellectual property. Of the two bidders left in the ring, the favourite remains Magna, a Canadian car-parts firm with close ties to Germany through its Austrian-born boss, Frank Stronach, and its partner, Sberbank, Russia's biggest (and state-owned) bank. A few weeks ago Magna looked almost certain to prevail. But RHJ International, a Brussels-based industrial holding company that has links with Ripplewood, an American private-equity firm, has emerged as a serious rival.

On the face of it, there is little to separate the two bids. Both will result in about 10,000 job losses (though relatively few in Germany). Both require substantial loans from the German and other governments: RHJ wants €3.8 billion and Magna €4.5 billion. Both bidders will put in some cash of their own: Magna and Sberbank say up to €700m, whereas RHJ has promised €275m. Under Magna's latest proposal, it will hold 27.5% of the equity, Sberbank the same and GM 35%. RHJ envisages holding 50.1%, leaving 39.9% for GM. Both are putting aside 10% for employees.

Each of the two bidders also has important supporters. Magna is the preferred choice of the leftist ministers in Germany's ruling coalition and Opel's powerful works council. Chancellor Angela Merkel was thought at first to have favoured a proposal by Fiat on the grounds of its superior industrial logic. But since the Italian company in effect dropped out of the bidding, she has swung behind Magna. The Kremlin is also firmly behind the deal, as Sberbank's Russian industrial partner, GAZ, a big automotive firm owned by Oleg Deripaska, an embattled oligarch, will provide the manufacturing capacity for Russian-built Opels.

However, GM has become progressively less enthusiastic about the Magna plan. It is worried about some of the intellectual-property issues that could arise if Sberbank were to sell out to GAZ or if Magna were to enter into manufacturing agreements with other carmakers. It also fears it could lose control of or even access to some technology Opel developed at great expense, such as clean diesel engines. A further irritant is a proposal by Magna to create a separate "Opel Russia" in which the main company would have a stake of only 70%. The other 30% would be acquired by Sberbank on what GM reckons to be ridiculously discounted terms.

Above all, GM is keen for any agreement to include a clause that would give it the option of regaining control of its former subsidiary when it has sufficient financial strength to do so. RHJ is happy to oblige.

But Magna and Sberbank are dead against any such condition, as is the German government. A view persists in Germany, especially among Opel’s unions, that GM has been a poor steward of what was once the country’s biggest carmaker. Will the new, post-bankruptcy GM be as easily cowed into accepting a deal it fears may not be in its long-term interests as the wounded giant of only a few weeks ago?

America's faltering livestock industry

Animal welfare

Jul 23rd 2009 | CHICAGO
From The Economist print edition

As exports tumble, America's pig and cattle farmers are stumbling

Corbis



Unwanted

THE Pipestone System, which manages sow farms in the Midwest, has an upbeat motto: "Helping farmers today create the farms of tomorrow." Of course, the farms of tomorrow may be decidedly smaller, if they survive at all. America's pork producers have lost money in 19 of the past 21 months. Pipestone is selling some of its sows. Randy Spronk, a Pipestone owner who serves on the National Pork Producers' Council, has seen neighbours quit the business. Corporate outfits are struggling too. In June, Smithfield, the world's largest pork producer, announced its first annual loss in more than 30 years. Beef, poultry and dairy farmers are not doing much better.

Only last year the world's appetite for meat and milk seemed insatiable. In May 2008 exports of pork were almost double the level of the year before, thanks to ravenous demand from China. Beef reached its own peak in August, with exports up 66% in a year. But even then, the exorbitant price of corn was denting margins (feed accounts for about two-thirds of input costs).

Since then matters have only got worse. Foreign demand has faltered for some commodities and plummeted for others. On July 17th the United States Department of Agriculture (USDA) predicted that exports of beef would decline by nearly 8% this year. In the first quarter cheese and curd exports were down by 13%; butter was down by 84%. The most dramatic swing, however, has been in the pork industry. The second quarter is usually the most profitable one: "the refilling of the piggy bank", says Mr Spronk. Pork supply begins a seasonal dip and demand sizzles thanks to backyard barbecues. But exports in April were already 28% below the high of May 2008. Any hope of relief was dashed by what pig farmers call a/H1N1 and everyone else calls the swine flu. May's pork exports were 11% below those of April and 36% below the same month last year. China has dealt the biggest blow, says Rich Nelson of Allendale, a commodity-research firm in Illinois. Exports to that market have all but vanished, falling by 96%.

The result is that more meat is being packed onto local shelves. Prices have fallen accordingly. Wholesale pork was 24% cheaper in mid-July than this time last year. Cheap pork in turn means competition for beef, which is already suffering from weak demand for expensive cuts. Beef prices are down by 19%.

Supply is dropping, slowly. The poultry industry began cutting production last year: Pilgrim's Pride, America's largest chicken producer, filed for bankruptcy in December. Pork producers have moved more slowly. Production in the second quarter was 1.7% below the second quarter of 2008, estimates the USDA. Smithfield and Tyson Foods are among the big firms cutting their herds. Any reductions, however, will be at least partially offset. Since 2007 litters have grown at more than double the usual rate, thanks to new vaccines and improved genetics. One group tried to organise a national cull to cut production

more quickly, but the effort collapsed in June. Dairy co-operatives have had more success. The National Milk Producers Federation "retired" 101,000 dairy cows this month and on July 10th announced another cull. This may help reduce the supply of milk, but it only fattens the supply of beef.

Uncertainty looks set to continue. John Lawrence of Iowa State University argues that the industry's woes are not just cyclical. Support for biofuels is pushing up grain prices. The USDA has predicted that production of meat from all the main livestock and poultry categories will decline this year. Eventually, says Mr Lawrence, that will lead to higher prices.

But for now, prices are dropping. Ironically, the one source of relief for farmers—a dip in feed prices, thanks to an unexpectedly good planting season—may bring further trouble, by giving them the financial leeway to delay culls. The longer it takes to cut supply, the longer farmers will remain in the red.

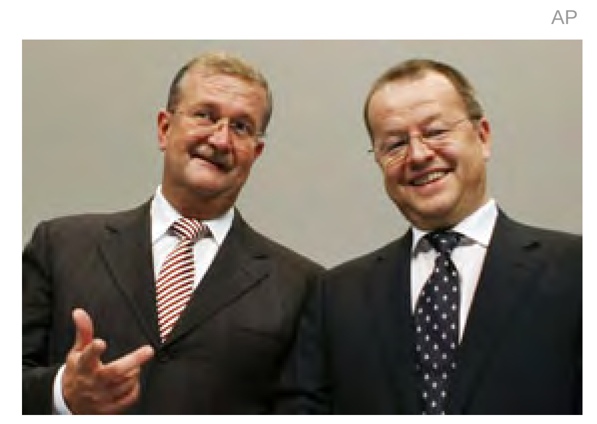
Upheaval at Porsche

Exit Wiedeking

Jul 23rd 2009
From The Economist print edition

The predictable end of a long battle

AP



Wiedeking and Härter, in happier times

IN THE morning of July 23rd, Porsche announced the departure of its chief executive, Wendelin Wiedeking, and its chief financial officer, Holger Härter. The German maker of sports cars thus succumbed to what had appeared inevitable since May, when it called off its improbable attempt to take over Volkswagen, a carmaker 15 times its size.

The departures of both men will pave the way for a merger, but one very much on VW's terms. Porsche, which under Mr Wiedeking became the highest-margin producer in the car industry, will now be fully integrated into the VW Group, joining seven other car brands: VW, Audi, Skoda, Seat, Bentley, Lamborghini and Bugatti. As *The Economist* went to press, a meeting of VW's supervisory board was expected to confirm the commitment to bring Porsche into the fold.

For VW's chairman, 72-year-old Ferdinand Piëch, who is also a major shareholder in Porsche, it will have been a moment to savour. As recently as late last year, Mr Wiedeking appeared on course to oust Mr Piëch and complete the acquisition of VW, the fruition of an audacious plan conceived by Mr Härter as long ago as 2005. The hard-charging Mr Wiedeking had come to see Mr Piëch as an obstacle in his path and the arch-representative of the old ways of doing things at VW. These included cosy relationships with the unions and the state of Lower Saxony, which has a veto on important decisions thanks to a 20% stake and the archaic "VW Law".

Last October Porsche triggered a sensational squeeze on short-sellers when it was slow to admit that it had raised its stake in VW voting shares to 42.6% while acquiring a further 31.5% in the form of secured options. For a time, VW was the most valuable company in the world. A month later Mr Wiedeking unveiled profits that exceeded revenue thanks to the appreciation of €6.8 billion ($8.7 billion) in the value of its stake in VW. He declared that with the help of a €10 billion credit line to realise its options, Porsche would press for "dominant control" of the larger firm.

That proved to be the high point of Mr Wiedeking's vaulting ambition. Although Porsche increased its holding in VW to 50.8% in January, it could only do so by almost tripling its net debt to €9 billion—at just the moment when its car sales were going into free fall and the credit markets were shutting up shop.

Perhaps if Porsche had managed to get the VW Law overturned, everything might still have worked out for Mr Wiedeking. He

would then have been able to exploit Porsche's anticipated 75% stake in VW to pay down the debt with the help of the bigger company's €11 billion cash pile. But at the prompting of Christian Wolff, Lower Saxony's premier and a fellow Christian Democrat, Angela Merkel, the German chancellor, risked the wrath of the European Commission by refusing to end the state's blocking minority.



On May 6th the warring Porsche and Piëch families, which own all the voting stock of the holding company that controls Porsche, agreed to find a way of merging the two carmakers. The game was all but up. As Mr Piëch gloated, Mr Wiedeking and Mr Härter made a last desperate attempt to salvage something from the wreckage of their plans. Their hopes rested on selling a substantial stake in Porsche to a Qatari sovereign-wealth fund and then negotiating with VW from a position of greater strength. However, the Qataris were reluctant to become involved in the feud between the families and had their eye on a substantial shareholding in the merged group. They insisted that they would invest only once the parties had come to terms.

For Mr Wiedeking and Mr Härter that meant one thing: a dignified exit. A statement from Porsche said that they saw their departure "as a significant contribution to the appeasement of the situation and to support the forming of an integrated car manufacturing company." Not too many tears should be shed for the pair, who last year earned more than €100m between them. But for Porsche, it is a sad end to 78 years of proud independence.

The spread of pop-up retailing

Gone tomorrow

Jul 23rd 2009 | NEW YORK
From The Economist print edition

A surprising shopping experience is becoming mainstream

"NOW you see it, now you don't" could be the slogan for American retailing these days. Even some of the most mainstream brands, like Circuit City and Linens 'n Things, have shut their doors. But a trend called pop-up stores makes sudden disappearance part of the appeal. Pop-ups arrive unannounced in empty storefronts or public spaces and leave just as quickly. Their aim, says Eduardo Braniff of Imagination USA, which does "experiential" marketing, is to "intervene in a consumer's life" and take people by surprise.

Given that eliciting shock is a prime goal of pop-ups, the more unpredictable the location, the better. Target, a national retailer, launched a pop-up "bazaar" in May in an abandoned museum, selling cheap items from its spring and summer collections. It lasted only three days. Boats, crates, buses and churches have been used for pop-ups too.

The cost of pop-ups varies between $100,000 and $600,000 a month, according to Melissa Spiegelman of Destination Media Group. For companies looking to make a splash, it can be money well spent. Pop-ups tend to attract media attention as well as consumers—sometimes more than a television commercial or full-page newspaper advert could.

Although pop-ups have been used as a marketing tool for more than five years, the weak property market makes them even more popular. Daffy's, a discount retailer not usually known for its choice zip code, opened a pop-up in Manhattan's chic West Village this week on the ground floor of an apartment building that had been tenantless. Hermes, Gucci and Brooks Brothers, all luxury retailers, have opened temporary shops in East Hampton this summer. Their leases are only a few months long, just enough to ride out the peak season.

Jack Anderson, of Hornall Anderson, a branding agency, hopes that pop-ups will revive the home of American consumerism: the mall. General Growth Properties, the second-largest American mall company, filed for bankruptcy this year, and other malls are struggling to survive. Hornall Anderson has been hired by the Westfield Group, which owns 119 shopping centres around the world, to find a way to win back brands and customers. The firm plans to use pop-ups to make shopping an unpredictable experience every month. The mall, it is hoped, will not disappear as quickly as most pop-ups do.

Economist.com BUSINESS

Europe's unwieldy patent regime

Smother of invention

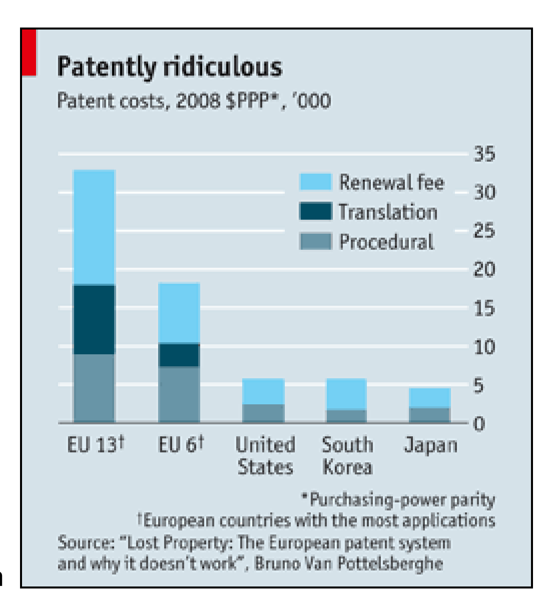
Jul 23rd 2009 | PARIS
From The Economist print edition

European companies are suffering from an ineffective patent system

IN 1997 the European Patent Office (EPO) gave a patent to Massachusetts General Hospital for its use of nitric oxide to treat bronchoconstriction, a method often used for "blue baby" syndrome. Three gas companies—America's Air Products, France's Air Liquide and Germany's Westfalen Gas—appealed against the grant of the patent. Mass General and its Swedish licensee, AGA, then launched actions for infringement in the Netherlands, France and Germany. In 2000 a Dutch court said the patent was partially valid, in 2003 a French court said its validity was questionable and in the same year a German court judged it valid. Then in 2004 the EPO revoked the patent entirely.

Such cases infuriate companies in Europe. They want a single European patent to protect intellectual property across the region, and a single court in which to defend their rights. At the moment, inventors can apply to the EPO, with which all 27 members of the European Union and nine other European countries co-operate. But EPO patents, once granted, must be validated, translated and annually renewed in all those countries in which a firm wants protection. Litigation is country by country, and national courts can in effect overturn patents granted by the EPO, or uphold patents which have been invalidated by it. Firms can take advantage of this by filing directly with national patent offices.

According to a recent paper, "Lost property: The European patent system and why it doesn't work", by Bruno Van Pottelsberghe, a senior research fellow at Bruegel, a think tank, it can cost between four and ten times more to get a patent in Europe than in America, Japan, China or South Korea, depending on how many countries are involved (see chart). The bill is bloated by duplicate administrative fees and translation charges which add no value to the patent, says Mr Van Pottelsberghe, who was the EPO's chief economist in 2005-07.



The burden falls most heavily on small to medium-sized firms. Overall, according to the European Commission, the lack of a unified patent system is one reason why Europe's small and medium-sized technology firms fail to grow as quickly as those in America, Asia and elsewhere. One small firm, Sensaris, which makes wireless sensors to detect air pollution, has decided to make a filing under the international Patent Cooperation Treaty, which is a way of putting down a marker without the expense of a full patent application. Sensaris cannot afford the €30,000 ($43,000) or more it would cost to get patents for three or four countries in Europe, says Michael Setton, its founder. "We have decided not to pursue patents in Europe because the system makes it effectively impossible for us to defend them," says Fernando Guerrero, the Spanish co-founder of Solid Quality Mentors, a multinational technical consulting firm. Foreign lawsuits, he says, are unpredictable and can be very expensive.

A single "Community" patent, applying in all 27 countries of the EU, says Mr Van Pottelsberghe, could bring down the cost of obtaining protection by 60%. With a single court, firms would face less legal uncertainty. Sweden, which assumed the EU's six-month presidency on July 1st, is trying to forge political consensus. "The Swedes are putting extreme focus and energy into finally getting a proper European Community patent," says Alison Brimelow, president of the EPO.

The obstacles are still high. Surrendering their veto over patents would be a substantial loss of sovereignty for the EU's members. In some areas, such as genes, software and stem-cell research, the question of what qualifies for protection is controversial. Language is another big difficulty. Most countries still insist that any patent must be translated into their language to apply on their soil. In 2008

the burden was reduced somewhat by the London Agreement, under which countries can waive the right to have patents translated into their national language. But only 14 countries have agreed to do so. The EPO has only three official languages: English, French and German. Spain is particularly aggrieved at this.

The fuss over language may conceal other motives. Less innovative countries are unlikely to back a strong European patent, since their governments fear that companies which rely on imitation would lose market share to more inventive foreigners. National patent offices do not want to give up power and money. They, and the EPO itself, are worried that a unified process with a lower cost to companies would result in lower revenues. For the same reason, legal firms and translators have also fought against harmonisation.

But resistance may be starting to melt. “We have never been so close to having a Community patent,” says Thierry Sueur, head of intellectual property at Air Liquide in Paris. In the past politicians mostly left patent policy to specialists, since it seemed arcane and technical, but as intellectual property has grown in importance the flaws in Europe’s patent system have become more glaring.

The next five months will be crucial, because Spain, an opponent of a unified system, will hold the presidency of the EU next. In addition, the EPO will choose a new president in the next few months. Some candidates for the job are thought to oppose a Community patent and would be likely to hold back progress if elected—so a fight is on the cards.

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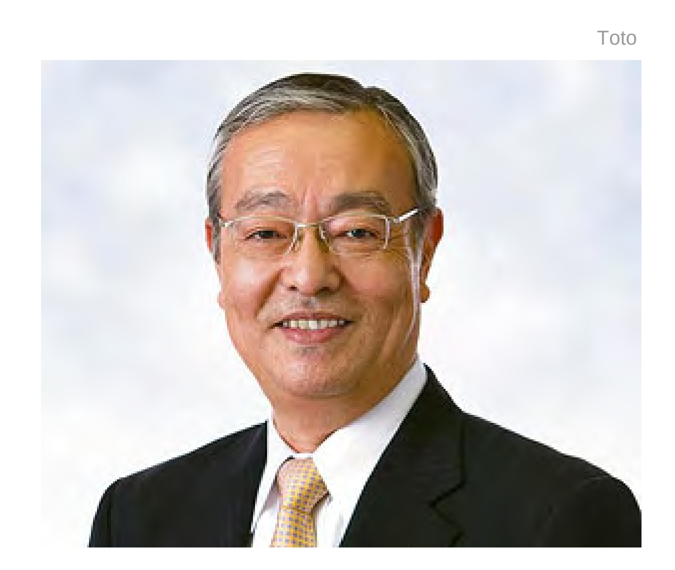
Face value

Flush with ambition

Jul 23rd 2009
From The Economist print edition

Can Kunio Harimoto convert the rest of the world to the charms of the Japanese lavatory?

Toto



IT IS the Lamborghini of lavatories, the Cadillac of commodes. With its sleekly sculpted basin, high-tech control panel, automatic lid, heated seat and built-in bidet, the "Neorest" is the sort of lavatory that would surely be used by James Bond. Or so Kunio Harimoto, the boss of Toto, believes.

Toto, based in Japan, is one of the biggest bathroom- and kitchen-ceramics companies in the world. It earns around ¥500 billion ($5 billion) a year, over one-third of that from lavatories and related accessories alone. It is best known for its "Washlet" range including the Neorest, which in addition to all its other functions hides odours and plays sounds like running water or birdsong to drown out embarrassing noises. Introduced in 1980, such sophisticated lavatories have become a national institution, found in 70% of Japanese homes. Until recently more households had one than had a computer. Toto, as the market leader and technological pioneer, sells 1.5m of them a year.

In other words Toto is a Japanese industrial icon. It was founded in 1917, as Toyo Toki (Oriental Ceramic), when it introduced Western-style sit-down lavatories to Japan—a farsighted move, considering the country lacked a sewage system at the time. Toto and its products became a symbol of modernisation.

But can Toto persuade Western consumers to modernise too? Mr Harimoto, who was appointed president of the firm in April, believes it can. Like many Japanese bosses, he has worked his way up slowly through the ranks. He joined Toto straight from Waseda University in 1973. Yet his management is far from traditional. During an interview, he readily consulted his aides when he did not know something, and they in turn felt comfortable interrupting him to correct the odd fact or figure. This sort of behaviour is almost unheard of in Japan, where underlings rarely dare contradict the boss and the atmosphere tends to be icily formal. Even Mr Harimoto's usual attire—a blazer, open collared shirt and tan trousers—is a break with Japanese business convention.

His plans are radical too: he is embarking on a big effort to extend Toto's international presence. The company already earns around 15% of its income abroad, mainly in China, other Asian countries and the Americas. Yet most of its foreign customers opt for less sophisticated (and less profitable) products. The firm also makes squat lavatories, for example—a far cry from their high-tech cousins, which can cost more than $5,000.

In America, where bidets are considered effete if not downright twisted, Toto sells fewer than 2,000

fancy lavatories a year (although they are beloved by film stars such as Charlie Sheen and Whoopi Goldberg, among others). In Europe, too, it faces formidable obstacles, including a dense thicket of national regulations. They cover everything from the use of bronze or brass in the fixtures (depending on how "hard" or "soft" the local water is) to the degree of water pressure that the lavatory is capable of withstanding. The panoply of rules destroys economies of scale while protecting domestic manufacturers, explains Mr Harimoto, as Toto must produce different lavatories for each European country. It took the firm's staff a full year to redesign the products to meet all these regulations, he laments.

Moreover, high-tech lavatories succeeded in Japan for unique reasons. Houses are generally small and many generations live together. Bathrooms are often the only place where there is any privacy, so homeowners are willing to spend more on them. Dwellings are kept cold in winter, so a warm seat is priceless. And lavatories like the Washlet appeal to Japanese fetishes for both gadgets and cleanliness.

Mr Harimoto, however, has spent his career in sales and marketing, and so has some ideas about how to introduce Westerners to the pleasures of the luxury loo. In China, he notes, a Washlet is an aspirational item, a mark of success. To help foster that image, and to spread awareness of the product, the firm made a big effort to sell them to developers of landmark buildings, from the Olympic stadium to the national theatre.

In Europe and America, too, Toto is attempting to place Washlets in prominent public locations. It is even providing maps to them, so the curious can seek them out and try them. It is a strategy the firm first developed in its home market, when it published a map of Washlets in the shops and restaurants of the grand Ginza shopping district, thereby reinforcing its ritzy image and providing potential customers with a free trial all at the same time. Mr Harimoto is also overseeing the launch of a handful of retail showrooms—Toto calls them "galleries"—in posh American cities like Fort Lauderdale, Florida and West Hollywood, California, to woo customers. In other words, Mr Harimoto aims to transform the humble lavatory into a chic luxury product.

Easy on the conscience, too

Mr Harimoto also has an environmental sales pitch. The Washlet's highly engineered tornado-style flush uses 4.8 litres of water, compared with six or more in humbler lavatories. True, high-tech lavatories are energy hogs, accounting for 4% of household energy consumption in Japan—more than clothes dryers or dishwashers. But Toto has developed a fix for that as well: its lavatories boast software that "learns" what the typical pattern of use is in each household, so it can power down during quiet periods.

Mr Harimoto brims with pride about Toto's 800 engineers and research budget of ¥12 billion to devise these sorts of innovations. But even they will have a hard time getting around the biggest obstacle to the use of its fancier lavatories in the West: the lack of electrical sockets in bathrooms. Japanese builders have been persuaded to install them behind the bowls as a matter of routine. Mr Harimoto is confident that Westerners will gradually adapt to lavatories like the Washlet too. "It took around 20 years before it became popular in Japan," Mr Harimoto says, "We need to be patient."

Economist.com OPINION

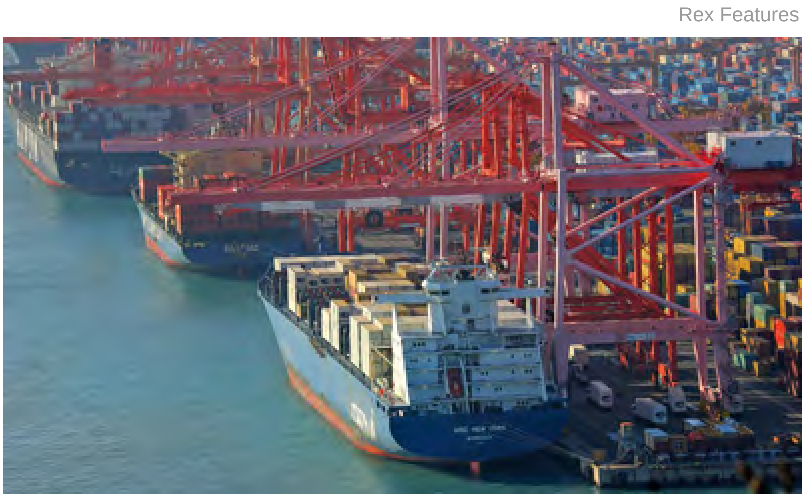
World trade

Unpredictable tides

Jul 23rd 2009
From The Economist print edition

World trade is no longer collapsing and fears of rampant protectionism have not been realised. Even so, the way to revival looks far from smooth

Rex Features



THE worst global economic slump since the Depression has generated reams of mind-boggling numbers. Among the starkest—and the most worrying—have been measures of world trade. According to the World Bank, the dollar value of trade is about a third lower than it was a year ago. Barry Eichengreen, an economic historian at the University of California, Berkeley, estimates that trade has contracted by more in this crisis than it had at a comparable stage of the Depression (see article).

Lately the news has been more encouraging. Trade is far from booming, but it has at least stopped declining. The World Bank even detects "hints of an uptick" in early data for June. Bernard Hoekman, director of the bank's international trade department, has "little doubt that the decline in trade has bottomed out".

Whether global commerce makes a speedy and lasting recovery depends, in the first place, on how quickly and sustainably global demand picks up. But it also depends on two other factors.

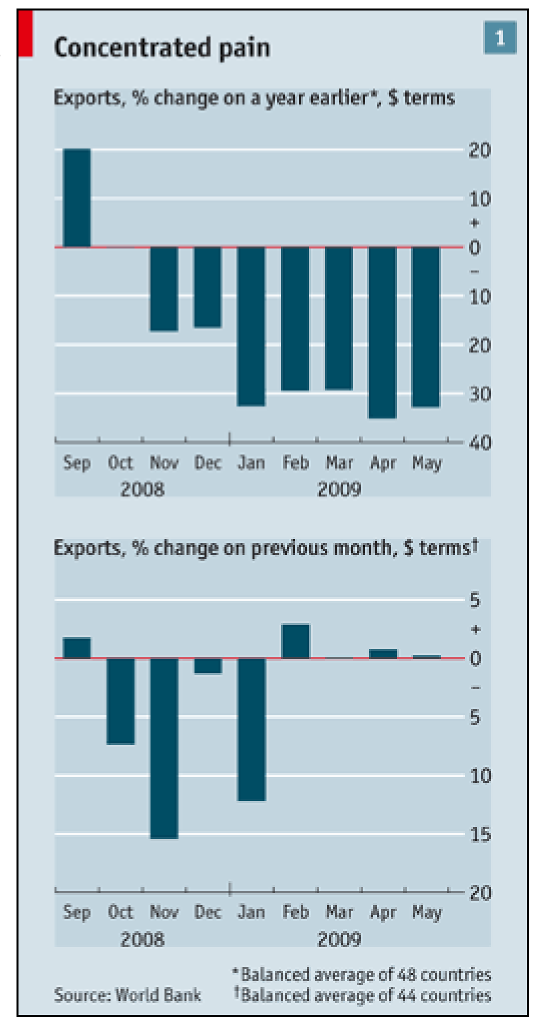
One is the reason why trade slumped so badly at the turn of the year. If the main culprit was the drop in global demand, as most economists believe, trade should recover smartly when demand picks up. But if it was an increase in protection, trade will be slow to emerge from the doldrums. Such measures, as past crises show, are easier to put in place than to remove.

The second is global trade politics. Governments will continue to be under pressure to erect trade barriers as unemployment continues to rise and as their room for more fiscal and monetary expansion becomes cramped. Leaders of the world's biggest economies have repeatedly promised to conclude the Doha round of trade talks, which have already dragged on for more than seven years and been near to death several times. In doing so, they have set themselves an important test.

A hole in the hull

Compared with a year ago, the state of trade is dire. According to the World Bank, the dollar value of exports in the 48 countries for which final data for May are available was still about one-third lower than in May 2008. However, year-on-year data mask recent changes (see chart 1). Month-on-month figures point to a

dramatic slump at the turn of the year, but stability since. The bank reckons that the average value of exports (for 44 economies accounting for three-quarters of world trade) dropped by 15.4% in November, held steady in December and plunged by 12.2% in January before flattening out.

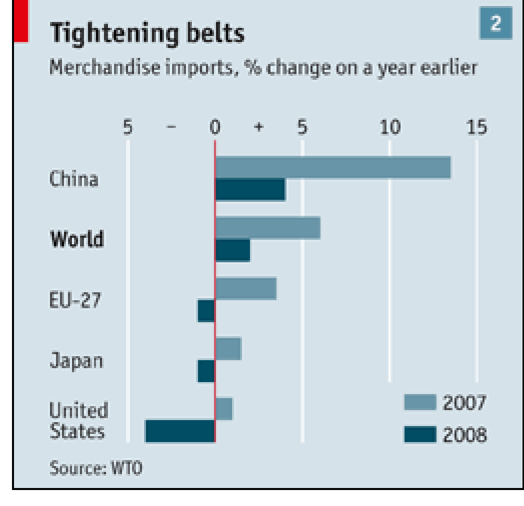


The precipitate drop in trade—far more marked than anything that has happened to global GDP—was caused in part by the way production is now organised. Trade has always been more than proportionally affected by fluctuations in output, but the globalisation of the supply chain has increased its responsiveness. Stages of production that were once local are now much more likely to be carried out abroad. Douglas Irwin, of Dartmouth College, estimates that in the 1960s and 1970s, if global GDP increased (or decreased) by 1%, trade would grow (or shrink) by about 2%. In the 1990s, the change in trade was 3.4%.

In recessions, according to a new paper by Caroline Freund of the World Bank, trade contracts even more sharply than it responds in easier times. Using data from the global downturns of 1975, 1982, 1991 and 2001, Ms Freund finds that whereas real income growth was, on average, 1.5 percentage points lower than its pre-recession rate, trade growth stumbled by 7.2 points, or nearly five times as much.

Several reasons why trade should decline so fast in recessions suggest themselves. It could be that, anticipating a sudden slowdown in growth, firms draw down accumulated inventories sharply, causing a rapid contraction of trade. But it is also possible that during downturns governments turn to protectionist policies, heightening the responsiveness of trade to a fall in demand.

Broadly speaking, the timing of the collapse and stabilisation in trade flows, as well as the sectoral and geographical pattern of the decline, suggest that demand and destocking, rather than a retreat into protection, are the chief causes. The World Trade Organisation (WTO) points out that America, which was the first big economy to enter recession, also saw the sharpest contraction of imports last year (see chart 2). Data for America and Japan show that trade in non-durable consumer goods like clothes and food, for which a basic level of demand persists and purchases of which cannot be put off for as long as those of bigger-ticket items, has declined least among main product categories. Exporters specialising in capital goods and durables, such as Germany, have been hit harder than others. And even for cheap non-durables, the early falls were the sharpest, suggesting that retailers were furiously running down their inventories.



Differences in the trends of goods and services trade also support the destocking thesis. Aaditya Mattoo and Ingo Borchert, economists at the World Bank, point to the relative resilience of trade in services, which unlike goods cannot be stored and are therefore immune to the inventory effect. In April America's imports of goods were 34% lower than a year earlier. Its exports were 27% lower. Both imports and exports of services, however, were down by only 10%. Imports of business, professional and technical services (including information-technology services outsourced to places like India) were 4% higher in the first quarter of 2009 than a year earlier.

The WTO has analysed trade policies as well as trade flows. There have been several instances of countries raising tariffs, within the limits of their WTO commitments. America, the European Union and Switzerland have all introduced new farm subsidies (or restarted programmes that had been allowed to lapse). The number of anti-dumping cases initiated by WTO members rose sharply in 2008, from a 12-year low in 2007, and continued at a high rate in the first quarter of this year.

Other measures, especially when carried out by sub-national governments (counties and states), are less

explicit. Local-procurement provisions attached to several stimulus packages, including America's and China's, are intended to favour domestic suppliers over foreigners. Sectoral subsidies, particularly to carmakers, have often come with pressure to ensure that any job cuts take place abroad, not at home.

But changes in trade policy have not all gone one way. Several countries, from Australia and China to Ecuador and Paraguay, have moved in a liberal direction, reducing import duties or removing non-tariff barriers since the beginning of March. Chad Bown, an economist at Brandeis University, points out that the total value of trade targeted by the flurry of new anti-dumping actions is small: less than 0.45% of the total value of G20 countries' imports.

All this is fairly reassuring. The bottoming-out of trade reflects a slowing of the decline in the world economy. Destocking may have run its course. Given its responsiveness to output, a lively rebound in trade is not inconceivable. Meanwhile, protectionism has not run riot.

But caution is still needed. Several big economies are being supported by expansionary fiscal and monetary policies, which will eventually have to be unwound. Recovery is likely to be sluggish. Unemployment will probably continue to rise—by between 21m and 50m this year, according to the International Labour Organisation. With monetary and fiscal stimulus already near their limits, trade barriers may seem a tempting way to protect jobs. Some countries could raise tariffs substantially without breaking WTO rules. Or stricter buy-local provisions, say, could squeeze trade.

The road back to Doha

This is why the politics of trade—not least the prospects of completing the Doha round—remain important. Some of the round's doubters have questioned its value because it promises no substantial further reductions in actual tariffs, merely aiming to limit countries' scope to raise them. The World Bank's Mr Hoekman is more optimistic. Countries realise that open markets cannot be taken for granted, and few of them want to be seen to fall foul of their international commitments. This makes the "insurance" aspect of the Doha round more attractive than it was just a few months ago.

But the crisis has also revealed the limitations of existing multilateral norms. WTO rules on public procurement do not restrict the ability of local governments to discriminate against foreign suppliers. Countries that have not signed the WTO Agreement on Government Procurement are free to pursue discriminatory policies. This leads Mr Hoekman to argue that another benefit of concluding Doha will be that it will open up the scope for negotiations to establish rules of the game in areas such as international financial sector regulation, government procurement and services trade, where the crisis has revealed scope for protectionism.

Unfortunately, a successful conclusion to the round is still far from certain. The last attempt collapsed in July 2008, when India insisted on more protection for its farmers against sudden surges in imports than America was willing to accept. For all the good intentions of world leaders, hope therefore rests largely on Ron Kirk, America's new trade representative, and Anand Sharma, India's new commerce minister, finding common ground. The two have already met several times. Mr Kirk has spoken of the need to conclude Doha in a way that is "balanced and ambitious". Mr Sharma has stressed that he has a mandate from his prime minister to sign a global trade deal.

But since his appointment, Mr Kirk has focused mainly on the enforcement of existing trade rules. His latest policy speech, at a steel plant in Pittsburgh, concentrated on detecting violations of labour standards by trading partners and promises to resort to legal action if necessary. Gary Hufbauer, of the Peterson Institute for International Economics in Washington, worries that a "fusillade of cases will set Doha back".

Some argue that by demonstrating that his resolve to a worried domestic audience, Mr Kirk may find it easier to get the authority he needs to negotiate Doha. Those who are hoping for the trade talks to reach a successful end can only hope that this reading is correct. If it is not, an agreement may be no nearer.

Economist.com FINANCE & ECONOMICS

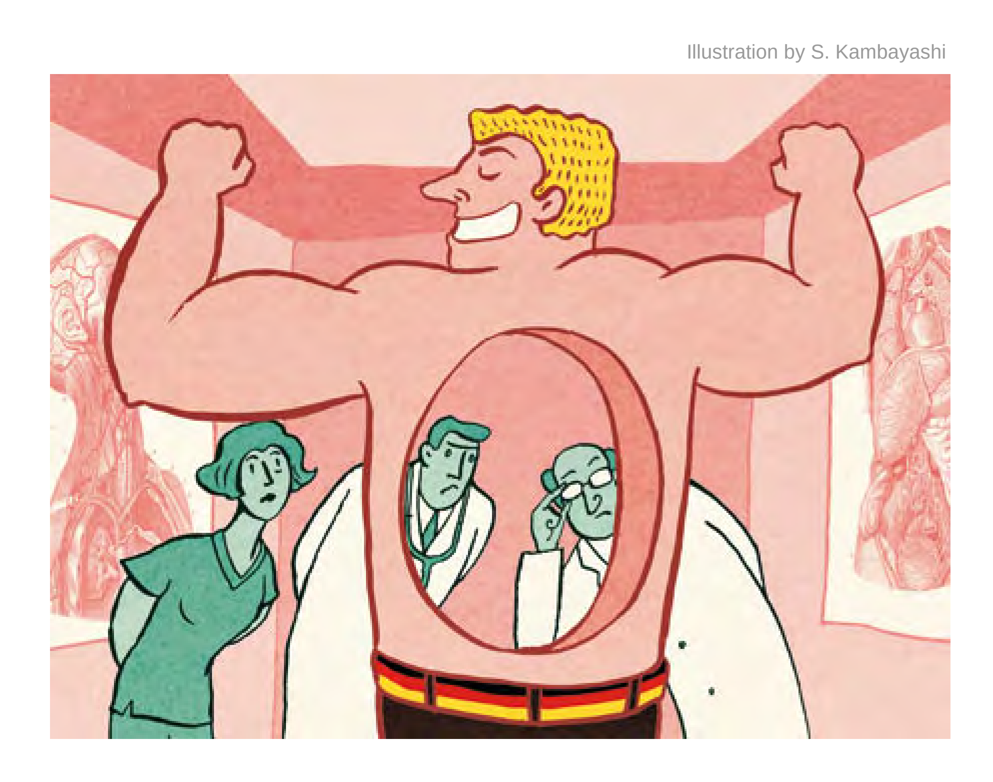
Germany's looming credit crunch

A reluctant patient

Jul 23rd 2009 | BERLIN
From The Economist print edition

Europe’s biggest economy has largely escaped the squeeze. Not for much longer

Illustration by S. Kambayashi



ONE of the hardest tasks doctors face is convincing an outwardly well patient that he needs drastic treatment. So too with Germany’s financial system. By most measures, the flow of credit has held up pretty well in Germany, even as it has fallen elsewhere. Yet without painful surgery, there is a real danger that the arteries of finance may soon clog.

There is no obvious need to panic. According to ZEW, a research institute, the total volume of loans outstanding in Germany was almost 3% higher in May than a year earlier, compared with loan growth of under 2% in the rest of the euro area. Surveys of businesses and banks have shown no pervasive tightening of credit. A monthly survey by the IFO institute for economic research at Munich University found that in June more than half of German firms thought credit no harder to come by than usual. A similar study by the German chambers of industry and commerce (DIHK) found that almost two-thirds of firms had experienced no tightening of credit conditions.

Bankers say that they have got tougher but they have still tightened lending standards less markedly than their counterparts in the euro area as a whole. Not even the notoriously pessimistic Bundesbank expected Germany to experience a credit squeeze when it produced its latest forecasts in June. “Overall what you see right now is not a credit crunch,” says Carola Schuler of Moody’s, a rating agency.

Yet many in Germany are increasingly concerned that a looming credit crunch will squeeze lending to the country’s middle-sized firms, throttling any hope of a rebound in growth next year. “There is a real danger for the second half of the year” that credit conditions will tighten sharply, says a senior government official.

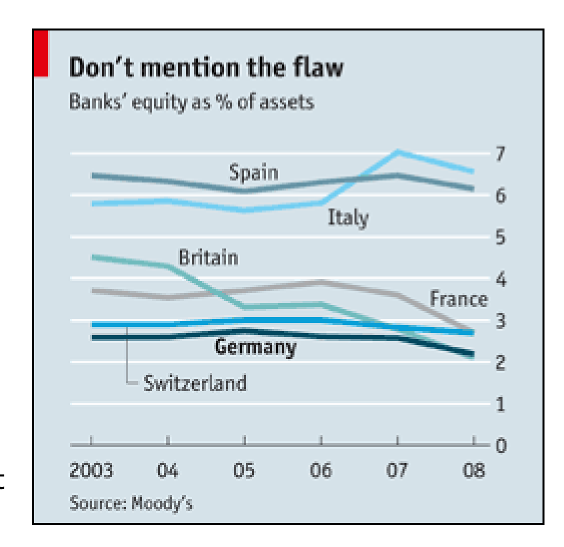
The first reason for worry, oddly, is that Germany’s legion of small and medium-sized firms entered this downturn with balance-sheets stuffed with cash. Most say that they are not having trouble raising loans because many have not yet tried. But the sharp contraction in German export orders, with sales in some industries such as machine tools falling by 60%, means that many firms are now burning cash and will soon need to replenish reserves, says Alexandra Böhne of the DIHK.

Being very small will afford some protection. Germany's locally owned savings banks (or *Sparkassen*), co-operative banks and small regional banks seem still to be lending furiously to their local clients. Alongside dedicated mortgage banks, such institutions account for about two-thirds of all lending in Germany, although most of this is to (thrifty) households and very small businesses. Being very big may also help. Germany's largest firms have successfully sold bonds in recent months.

That leaves the *Mittelstand*, the mid-sized firms that are the backbone of Germany's export-driven economy, most exposed to a credit squeeze. Sheltering these firms will be tricky because there are many reasons for the expected contraction in lending. The first is that they were keenly courted before the crisis by foreign banks that have since pulled back. Stories abound of clients of these banks desperately knocking on the doors of domestic lenders. "Foreign banks have more or less retreated from Germany," says Matthias Wissmann of the German Association of the Automotive Industry (VDA).

A second reason is that the merger of two of the country's big domestic banks, Commerzbank and Dresdner Bank, is leading to a sharp withdrawal of credit from the *Mittelstand*. This is partly because the combined bank is obliged under European state-aid rules to shrink its balance-sheet in return for the help it has received from the government. But it is mainly because many middle-sized companies were clients of both banks. Now that they have merged, credit lines are being amalgamated and cut back.

Underlying these risks is a deeper weakness. German banks are thinly capitalised, with little more than 2% of equity supporting their assets (see chart). Loan losses from a prolonged downturn could quickly deflate that cushion; so too could losses on the banks' hoard of toxic securities, estimated in some quarters to exceed $1 trillion.



German banks also fear the effects of credit downgrades among their corporate clients. Under Basel 2 rules banks would then have to set aside more capital relative to their assets. The head of corporate banking at one large German bank anticipates an average downgrade of three notches among its clients, which in theory could force the bank to increase its capital reserves by as much as a quarter. Others expect more modest downgrades of one to two notches on average, but few can afford even that sort of deterioration. Many are likely to cut back on lending rather than try to raise more capital.

Such problems are not unique to Germany, but they are being handled in a uniquely short-sighted way. Germany's bad-bank plan, which passed into law this month, seems determined to deter banks from using it by imposing unnecessarily onerous conditions. Only two banks look likely to take it up. The scheme's main aim is to protect taxpayers from bearing losses. In that it will be a remarkable success. But it will do little to protect the economy from a prolonged credit squeeze.

Symptomatic of Germany's reluctance to peer into the state of its banks is its steadfast refusal to force them to conduct stress tests against published criteria. "Why were we reluctant to stress-test the banks?" says an official. "Because we were worried about what we would find." With doctors like these, pray for the patient.

Buttonwood

Cold comfort

Jul 23rd 2009
From The Economist print edition

The economic impact of swine flu may not be that bad

Illustration by S. Kambayashi

ATISHOO, atishoo, we all fall down. On July 20th the Ernst & Young ITEM Club, a forecasting group, warned that swine flu could knock 3% off Britain's economic output this year. The FTSE 100 stockmarket index reacted with equanimity, finishing the day 1.3% higher.

Perhaps investors had already factored the impact of a pandemic into their calculations. Perhaps the media's habit of treating every potential crisis as an omen of the apocalypse made them cynical. Or perhaps they were simply sceptical of any attempt to predict the economic impact of the disease.

Swine flu is just the latest in a series of "exogenous events" (risks originating outside the financial system) to test the markets. Whether these events are natural disasters, acts of terrorism or even wars, they have generally had less economic impact than pessimists feared—at least over the past ten years. Even the terrorist attacks of September 11th 2001, the quintessential example of a shock, had only a temporary impact on consumer demand. Some much-feared events, such as the Y2K computer bug and bird flu, have been complete washouts.

Changes of government can be regarded as exogenous events too. An enormous amount of analysis is devoted to assessing the impact of elections. But it is hard to think of a recent ballot in a developed country that has led to a stockmarket taking a decisive new course.

Could swine flu be the exception that proves the rule? If the medical authorities are correct, one-third of the British population may be affected this winter (other nations would presumably be similarly hit). If all these people have to take a week off work (because of their own, or a child's, illness), production will be affected. If the "worried well" avoid public places like shopping malls or aircraft, demand will also fall. That is the rationale behind the Ernst & Young prediction and a World Bank study of pandemic flu in 2008 that suggested a 5% blow to global GDP.

At the very least, the pandemic will make this autumn's data hard to interpret. Any impact on consumer sentiment would come at an awkward time, with the economy still struggling to bounce back from recession. But as Ian Stewart, an economist at Deloitte Touche Tohmatsu, an accounting firm, points out: "History suggests that economies are remarkably resilient in the face of disasters." Activity merely shifts from one period to the next.

That was the conclusion of a 2006 report* by the Canadian finance ministry, when bird, rather than swine, flu was the concern. The report examined the global flu outbreak of 1918 and the less severe pandemics of 1957 and 1968. In the first episode, about 20-25% of North Americans fell ill, with a maximum of around 4% of the population taken sick at the same time. Excess mortality, defined as a greater death rate than normal, was around 4 in 1,000, or 0.4% of the population.

What economic impact did this have? Figures for American industrial production show a 1.7% decline (in annual terms) during the autumn of 1918, which translates into a 0.5% fall in overall economic output. As for sensitive consumer sectors such as retailing and transport, the authors conclude that the impact ranged "between indiscernible and modest". There was no visible effect on world trade or on the Dow Jones Industrial Average.

The 1918 pandemic coincided with the end of the first world war: the data may have been distorted by

the conflict. But the 1957 and 1968 pandemics occurred in more normal times and on those occasions too, the authors found the economic impact was very small.

All told, and even if one allows for greater absenteeism in the modern era, a repeat of the 1918 outbreak would only hit output in affected countries by 1%, the study concluded. And the reason for the limited impact? “People adapt and work around the shock; those unaffected work harder and longer to pick up the slack.”

Apart from the difficulty of forecasting the impact of exogenous events, investors may have another reason for ignoring them. The “endogenous” factors (those originating within the system) seem so much more important. It was not a disease or a war or an election that plunged the economy into crisis, but a combination of bad lending decisions and the excessive leverage of banks at the heart of the financial system. H1N1 will have to be a very powerful virus indeed to match the destructive force of subprime lending.

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* “The Economic Impact of an Influenza Pandemic” by Steven James and Tim Sargent. Working Paper 2007-04, Canadian Department of Finance

Economist.com/blogs/buttonwood

CIT's punitive private rescue

Afloat but not buoyant

Jul 23rd 2009 | NEW YORK
From The Economist print edition

CIT averts bankruptcy, for a while at least

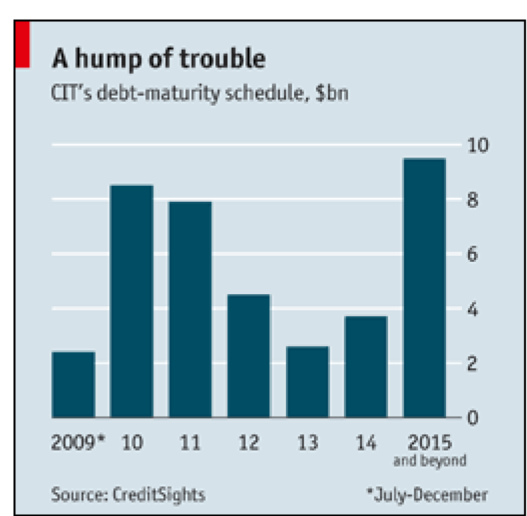
JUST as the scale of the subprime-mortgage crisis hit home in the summer of 2007, CIT sponsored a lavish ball on the *Queen Mary 2*, docked at the time in New York. Now the company is struggling to stay afloat as dollops of debt come due and clients tap credit lines. This week it was thrown a lifeline after the government refused it access to a debt-guarantee scheme and banks offered only bankruptcy financing: a $3 billion loan from a group of bondholders that gives CIT enough breathing room to repay $1 billion of debt due in August via a tender offer.

As a big lender to small and medium-sized businesses, CIT had claimed that its failure would cause huge disruption. The government disagreed, despite the danger of losing $2.3 billion it had invested in the firm last year and of potential embarrassment for the Federal Reserve, which had deemed CIT adequately capitalised at the time. Allowing CIT to fend for itself is a rare blow against moral hazard for a government that has been reluctant, after Lehman Brothers, to let troubled giants fail.

It is not, however, a turning-point. CIT is a mere one-ninth of Lehman's size in terms of assets; it is also far smaller than GE Capital, which said on July 22nd that it was now strong enough to exit the government debt-guarantee scheme to which CIT was denied entry. Nor does the rescue necessarily point to a resurgence of private capital. The creditors were prepared to help only on punitive terms: the loan carries a 13% interest rate (more than CIT can charge its customers) and is backed by collateral worth several times its value. Those that bought the firm's debt at a discount could even turn a profit. "They've fleeced the desperate," says one investor, frustrated that CIT did not file for bankruptcy. But emerging from Chapter 11 is far harder for financial firms than for those with more tangible assets, such as airlines.

With credit markets thawing, CIT hopes to be able to restructure its debt at more affordable rates in coming months. But first short-term bondholders have to accept its tender offer of 82.5 cents on the dollar. Moreover, the firm needs not just loans but capital, perhaps $4 billion more, which may require a debt-for-equity swap.

Even then, CIT will struggle to convince markets and rating agencies of the viability of its business model, which relies largely on funding from capital markets. Its chances of regaining the investment-grade rating it needs to be able to borrow cheaply enough to lend profitably seem remote given its punishing debt load (see chart). There is little reason to think that Jeffrey Peek, who headed into subprime mortgages and student loans at just the wrong time—and who, remarkably, remains at the helm—can navigate to safer waters.



CIT does not have to go bust for its customers to feel pain. Thousands of manufacturers and retailers that used the firm for an arcane but popular form of financing known as factoring could find themselves cut off from vital funds. They hold credit balances with CIT after selling their receivables to the firm but receiving only a portion of the payment upfront. Some of these balances are now trapped with CIT, having been used as collateral for its own borrowing. In other words, its borrowers have inadvertently become its creditors. Given CIT's dominance of America's $40 billion factoring market, the amount tied up could be large enough to put hundreds of firms out of business.

This is awkward for the Obama administration. In letting CIT fend for itself, it may have drawn a line on bail-outs, but it has also exposed itself to accusations that it cares more about the big corporations

served by Goldman Sachs than the mom-and-pop outfits CIT caters to. Refusing aid was financially wise but politically risky.

A change of heart still looks unlikely. Guarantees have been ruled out, as has another public capital injection. And CIT's hopes of getting an exemption that would permit it to fund ropy assets at its non-bank parent company with deposits from its Utah-based bank appear to have been dashed. If CIT is to avoid further icebergs, it will have to be with private help only.

American tax policy in Asia

In their sights

Jul 23rd 2009 | HONG KONG
From The Economist print edition

America's revenue-collection schemes are causing concern in the region

Getty Images



Offshore attack

DESPERATE for revenue to pay for vast spending plans, America is targeting a group that it, alone among developed countries, brings under its tax umbrella: citizens and firms living and operating abroad. The tougher approach is causing particular concern in Asia, where tax rates are low. In Hong Kong, the top corporate rate is 16.5%; in Singapore, it is 18% but dropping to 17%. Even high-tax countries like China charge only 25%, compared with 35% in America. To Asian governments and businesses in the region, low taxes are instruments of growth. To many in America, they are inducements for tax evasion.

For individual Americans, an obvious sign of hardening attitudes is the imposition of severe penalties for failure to file a Foreign Bank Account Report, a little-known form required for anyone with, collectively, more than $10,000 in financial institutions abroad.

Even people who inadvertently fall foul of the requirement face fines of 20% of the value of the account's highest balance over the previous six years. Withers, a law firm, has held seminars on the subject to packed rooms in Hong Kong and Singapore. "People are confused and worried," says Kurt Rademacher, a partner. Schools and religious organisations say the crackdown is pushing American volunteers with signing authority over accounts to stand down.

Foreign financial firms and regulators are being pushed to provide information on accounts held by Americans directly to America's authorities. Such demands add administrative burdens and often conflict with local privacy laws restricting bank disclosure. UBS, a Swiss bank which is defending itself in an American tax-evasion case, is an obvious example of the trend but the pressure is being felt in Asia too. Information sought includes earnings from capital gains and dividends, which places like Hong Kong and Singapore do not tax and thus do not record. A number of new investment funds in the region are moving to lock out American investors.

Both Hong Kong and Singapore are on a preliminary blacklist of tax havens in legislation proposed by Carl Levin, a Democratic senator. Blacklisting would make it hard for American firms to function there. Another proposal, put forward by Barack Obama in May, would stop American companies from paying taxes on foreign earnings only when they are repatriated. Many observers believe that would be a competitive disaster, particularly for private firms financing growth in Asia by reinvesting their retained earnings. "America is locking itself in behind its own great tax wall," says Laurence Lipsher, a certified public accountant in China.



FINANCE & ECONOMICS

Reforming finance: Rating agencies

Downgraded

Jul 23rd 2009 | NEW YORK
From The Economist print edition

Rating firms could lose their special status. The latest in our series



IF THE past decade's financial over-engineering was a crime, rating agencies were the getaway drivers. The punishment for putting their stamp of approval on collateralised-debt obligations, bond insurers and various undeserving dross is becoming clearer. On July 21st the Obama administration proposed legislation that is more comprehensive than many expected.

The proposals focus on tackling conflicts of interest and on increasing openness. If an analyst is hired by a customer, his past work will be subject to extra scrutiny. The agencies will have to disclose their fees, ratings history and a lot more about their methodologies. They may not do consulting work for ratings clients.

Such measures should curb the "ratings shopping" that was prevalent in the boom. Greater disclosure will also make it easier for investors to prove in court that agencies were reckless—the industry faces dozens of lawsuits from investors, including CalPERS, a giant Californian pension fund (which, ironically, Moody's put on review for a downgrade this week).

Like the European Union, which approved its own reforms in April, the Americans stop short of blessing a particular way of paying for ratings. The dominant model, in which the bond issuer pays the rater directly, encouraged cosiness between the two. But the alternatives have flaws too. The "investor pays" approach encourages freeriding among non-subscribers; and investors, like issuers, have incentives to influence the process. A government ratings utility may be tempted to minimise downgrades when the economy sours.

The main problem, in any case, lies elsewhere. Rating firms have become an anointed oligopoly (with margins to match) because they are embedded in regulations. Pension and money-market funds are restricted from holding lowly rated securities; banks get capital relief for holding highly rated ones. Investors flocked to AAA-rated firms such as American International Group, which could take big risks without having to post collateral with counterparties. David Einhorn, a hedge-fund manager, calls it "the curse of the triple-A". Ratings are also procyclical, he says. In good times upgrades fuel bubbles; in bad times downgrades automatically send markets spiralling.

The obvious solution is to strip the rules of references to ratings where possible, so that the market, rather than a government mandate, determines the extent of their use. The American proposals, which must be reconciled with several bills in Congress, merely urge regulators to determine where references can be removed. But momentum is building. Before long, the industry could face its own multi-notch downgrade.

Iceland's banking crisis

Pelt tightening

Jul 23rd 2009
From The Economist print edition

A country staggers back to its feet

Getty Images



Headquarters have been scaled back

TINY Iceland was hit uniquely hard by the credit crisis. Its banks had assets eight times its GDP. When they collapsed it seemed that a life of fishing and harvesting pelts beckoned for the country's more sophisticated inhabitants. Yet Iceland is special in another way: it did not issue a blanket bail-out to its banks, but rather let bits of them go bust. That could mean the cost to its public is less devastating than once seemed possible.

When the government stepped in last October, it only took over the domestic operations of the three big banks. The latest data have not been made public, but at the end of 2007 local assets accounted for just over half of the banks' total. On July 20th the government said it would inject $2 billion of capital into these "new" domestic banks, leaving their solvency ratios at robust levels. Most creditors are stuck in the bankrupt "old" banks, but if any surplus value emerges in the new banks beyond that of the public capital, they will get bonds or shares in them as compensation.

The taxpayer's gross bill for the banking mess comes in three bits, says Fridrik Baldursson of Reykjavik University. There is the capital just injected. There are the loans to lenders made during the crisis by the central bank, which must now queue up with other creditors of the "old" banks. Biggest and most controversially, there is the cost of honouring the guarantee made to foreigners with "Icesave" deposits at the old Landsbanki. Include all three and the total cost could amount to an eye-watering 90% of GDP.

But the government gets some assets too. The stakes in the "new" banks should be worth something. As a creditor, the state also has a big claim on the assets of the "old" banks as they are restructured or wound down. The central bank has just had a stab at forecasting public-sector debt (excluding a small amount of local-government liabilities). Gross debt will soar to about 180% of GDP next year. But after including financial assets, net debt rises to only 40% of GDP, from about zero before the crisis.

Of course that is cold comfort to the creditors who have lost money. And other investors are livid too, not least those with funds still trapped in the country by capital controls. But for the Icelandic public, whiplashed by the financial crisis, there are at least some grounds for hope.

Economist.com FINANCE & ECONOMICS

Rebalancing the world economy: America

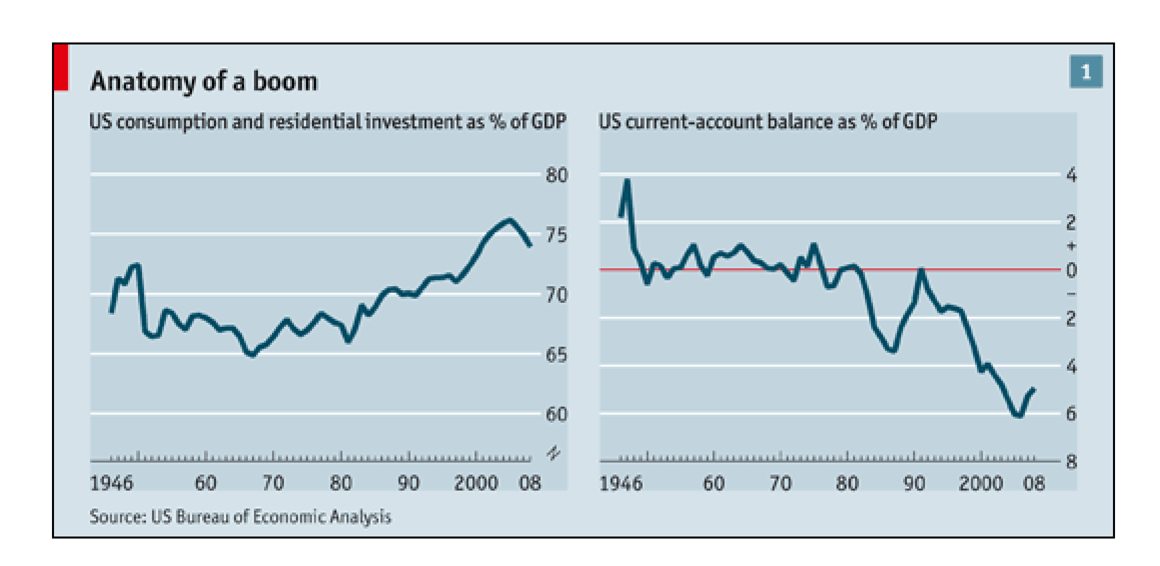
Dropping the shopping

Jul 23rd 2009 | WASHINGTON, DC
From The Economist print edition

Can America wean itself off consumption? The first of a series on how the world's four biggest economies must change to ensure sustainable global growth

GENERAL ELECTRIC has historically been a manufacturer, but in the long boom leading up to the financial crisis it became more like a bank. Half its profit came from its finance arm, GE Capital, which among other things had a lucrative business issuing mortgages and credit cards to American consumers. GE's chief executive, Jeffrey Immelt, now talks like a man chastened. With GE Capital acting as a drag on the company, he vows that in the future finance will be a smaller part of the company. In its place GE touts its manufacturing and exporting prowess. Mr Immelt boasts of record aircraft engine orders at the Paris Air Show in June, none of them to American airlines.

Like GE, the entire American economy is at an inflection point. For decades, its growth has been led by consumer spending. Thanks to rising asset prices and ever easier access to credit, Americans went on a seemingly unstoppable spending binge, fuelling the global economy as they bought ever bigger houses and filled them with ever more stuff. Consumer spending and residential investment rose from 67% of GDP in 1980 to 75% in 2007 (see chart 1, left-hand side). The household saving rate fell from 10% of disposable income in 1980 to close to zero in 2007; household indebtedness raced from 67% of disposable income to 132%. As Americans spent more than they produced, the country's current-account balance went from a surplus of 0.4% of GDP in 1980 to a deficit of almost 6% in 2006 (see chart 1, right-hand side).

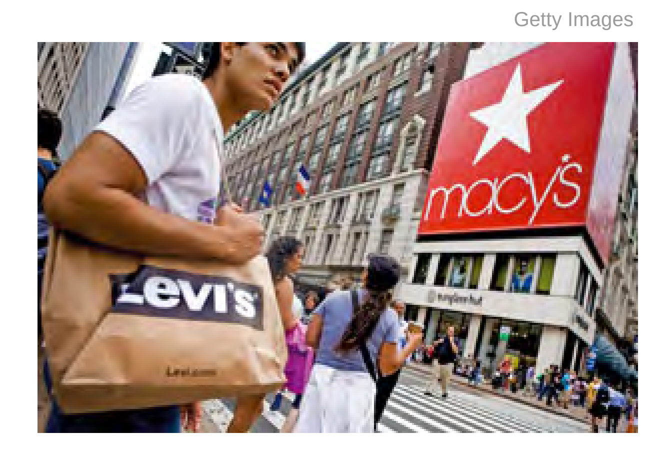


Economists had hoped that these imbalances would unwind gradually as Americans saved more and the rest of the world spent more. But they had long fretted that the process would end in tears. Most worried about a dollar crash, as investors balked at America's rising foreign borrowing. Instead the financial crisis felled America's consumers. The destruction of more than $13 trillion of consumer wealth and the implosion of the shadow banking system, a once plentiful source of credit, has triggered a shift to thrift, which in turn has plunged the economy into its deepest recession in decades. Americans now save more than 5% of their after-tax income, still well below the post-war average but hugely up from only a year ago. The current-account deficit has shrunk dramatically: the IMF projects that it will shrivel to less than 3% of GDP this year and next as Americans spend and invest less.

The collapse in consumption has dramatically changed the composition of America's economy. A huge increase in private saving has been offset by a leap in the budget deficit. The combination of Barack Obama's big fiscal stimulus package, as well as the natural consequence of declining tax revenues, means that the federal budget deficit this year is likely to be 13% of GDP, about 12 percentage points

more than in 2007. That has cushioned the slump. GE is among those taking advantage. It is aggressively pursuing stimulus-related sales, while tapping federal, state and local incentives. In June the company said that it would create 400 jobs at a plant in Louisville, Kentucky, making a low-energy water heater that is now made in China and that it would hire 1,100 people to staff a software research centre on the site of an auto plant in Van Buren, Michigan. Both investments were helped along by government incentives.

Getty Images



But despite the government's largesse, America's recession has been deep and its impact on the rest of the world profound. Though America is still a source of demand for the rest of the world, its waning appetite has been a hefty drag on world economic growth. In the years before the financial crisis kicked in, American demand contributed to global growth. This year it will subtract from it.

As the boost from fiscal stimulus takes effect there are signs that America's economy is stabilising. An index of leading indicators compiled by the Conference Board, a research group, rose for the third consecutive month in June. In testimony to Congress on July 21st, Ben Bernanke, the chairman of the Federal Reserve, struck an undeniably upbeat tone about the state of the economy. But the bigger issue—for America and for the world—is where growth will come from in the medium term. The answer is not entirely in America's hands—in the coming weeks, our series will also look at whether the world's big surplus economies, China, Germany and Japan, will boost their domestic demand. But as the world's biggest economy America is the right place to start. Three questions stand out. Can America continue to rely on government stimulus to drive growth? Will the consumer recover? Or can exports take up the slack?

The answer to the first question is "not for ever". In the short term, policymakers are committed to using a mixture of fiscal stimulus and aggressive monetary policy to hasten the end of the recession and prevent inflation from turning into deflation. But the contribution of the stimulus is due to start ebbing in 2010. The lesson of Japan in the 1990s is that the after-effects of a bubble suppress demand for longer than most expect, necessitating extended government stimulus. Unlike Japan, though, America is already in hock to the foreigners. Mohamed El-Erian of Pimco, a fund manager, predicts that policymakers will be reluctant to stimulate any further for fear of feeding suspicions that America will inflate away its debts, which could push long-term interest rates much higher. Even if they do not withdraw the stimulus next year, they must at some point if the federal debt, projected to double to 82% of GDP by 2019, is to stop rising.

The prospect of a withdrawal of government support need not spell disaster. As America looked forward to the end of the second world war, policymakers were deeply anxious that as war spending shrank, the economy would slip back into 1930s-like stagnation. "All alike expect and fear a post-war collapse," Alvin Hansen of Harvard University, a leading economist of the time, wrote in 1942. Yet the collapse never came. Thanks to rising productivity and rapid recovery in Europe and Japan, the post-war years witnessed strong, balanced growth. From 1946 until 1980, American households saved 8-10% of their disposable income and the country usually ran small trade surpluses.

An historic challenge

Perhaps productivity can accelerate again, boosting incomes enough to support robust spending as well as more saving. But an obvious difference from the post-war period is the need for American consumers to reduce their debts. Richard Berner of Morgan Stanley notes that in the past decade the proportion of income that American households devoted to servicing debt rose from 12% to 14%. He calculates that it

would have risen to only around 12.5% but for a dramatic loosening of lending standards during the recent bubble. He thinks the ratio will revert to around 12% through a combination of lower interest rates, debt repayments and write-offs. That can be done, he says, with consumer spending growing at just over 2% a year, still far below its average of 3.4% from 1993 to 2007.

The implication is that demand from abroad must take the place of a splurging domestic consumer and a free-spending government. As Larry Summers, Mr Obama's chief economic adviser, said on July 17th: "The rebuilt American economy must be more export-oriented and less consumption-oriented."

Take California, where the consumption and housing bubbles were especially pronounced. The shortage of land on the coasts drove many first-time homebuyers inland, fuelling a huge building boom. According to Jerry Nickelsburg of the Anderson Forecast at the University of California, Los Angeles, home-building permits tripled between the 1990s and 2005. The growth of new housing developments triggered a boom in new retail stores, lured by local government incentives. Meanwhile, America's ravenous appetite for imports from Asia fuelled business at the ports of Long Beach, Los Angeles and Oakland and their supporting infrastructure of railroads, transport and warehouses.

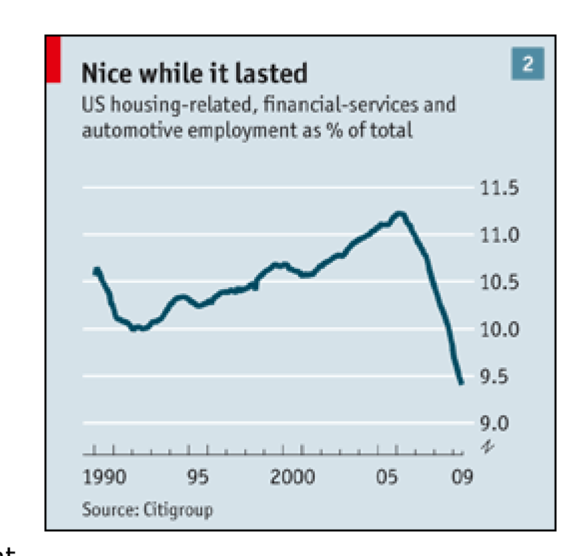
California's disproportionate exposure to the boom explains why its bust has been especially painful. Mr Nickelsburg says home-building permits have plunged by 85% since 2005 and that the value of new retail-construction permits has fallen by half. Import volumes have dropped sharply. Most big subprime lenders have gone bankrupt or left the business.

The first glimmers of an export-led revival are apparent. The state's manufacturing employment has shrunk by less than in most of the big manufacturing states, reflecting less dependence on carmakers and greater exposure to Asia. The seasonally adjusted number of containers loaded at its ports for export, many with agricultural products and other raw materials, has risen from the lows of earlier this year.

But it is one thing for exports to grow (and imports to fall) but another entirely for trade to compensate for the retrenchment of the much larger consumer sector. A cheaper currency may help. The trade deficit narrowed sharply in the late 1980s with the help of a dramatic fall in the dollar against the currencies of America's largest trading partners. The dollar has come down considerably since 2002 but has rallied over the past 12 months as investors have repatriated money from abroad. Its decline is likely to resume but its contribution to rebalanced growth will be constrained if China does not let the yuan appreciate against the dollar.

Turning circle

Nor is it clear how quickly America can shift resources into tradable products. Its economy is adept at moving workers and capital from dying to growing industries. But the scale of the adaptation needed now is daunting. Robert DiClemente, an economist at Citigroup, estimates that credit-sensitive industries—housing, finance and cars—have shed 2m jobs, or one-third of all those lost, since the recession began (see chart 2). It is not clear how quickly mortgage brokers and structured-finance whizzes can retrain in more productive industries. The fact that so many homeowners are sunk in negative equity will also constrain mobility.



The American economy is like a supertanker that, even in calm waters, changes direction very slowly. It is now being forced to do so in a gale. With the help of still sturdy growth in emerging markets America should be able to reorient itself. But come what may, changing direction means losing speed. On the demand side foreign spending is unlikely to compensate for the freewheeling American consumer. On the supply side investment has slumped and will take time to right its course. Pimco's Mr El-Erian reckons that the transition from consumption to export-oriented expansion will lead to prolonged subpar growth and high unemployment.

That will heighten political risks such as protectionism. The House of Representatives, for example, has passed a bill aimed at capping American carbon emissions that would slap tariffs on countries that do not do likewise. The steelworkers' union has attacked Mr Immelt as a hypocrite for touting GE's new focus on

manufacturing while opposing “Buy American” provisions in the stimulus package. Mr Obama’s support for free trade remains lukewarm, a failing that could yet undermine hopes for export-led growth.

Writing America off is always a dangerous thing to do. Most probably, however, it faces years of painfully high unemployment and sluggish growth. GE’s union at its plant in Louisville had to agree to a wage freeze until 2011 and to let new employees start for just $13 an hour. Like GE’s workers, Americans will find the new, export-driven model of growth much less comfortable than the old one.

Video: See the three stages of America's post-war spending at: Economist.com/videographics

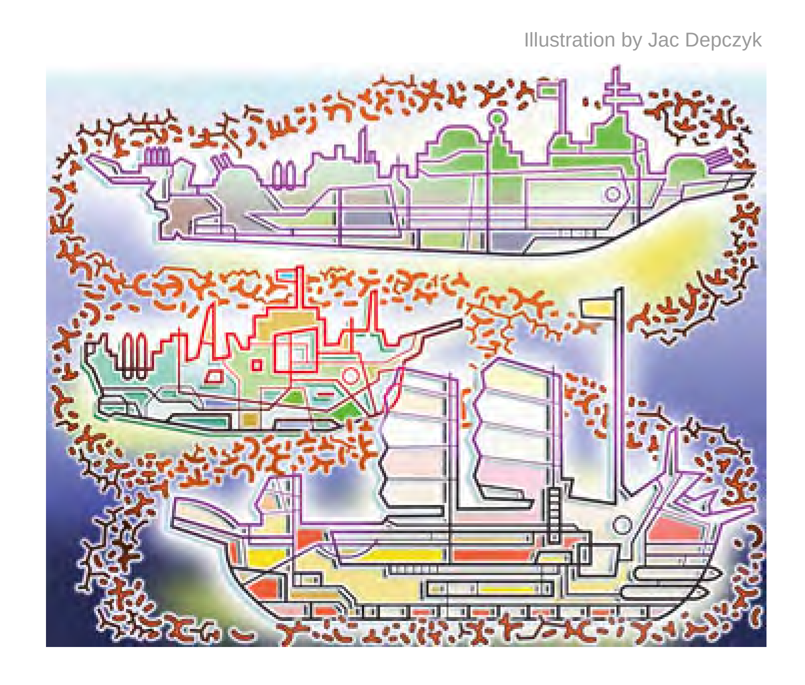
Economics focus

Great barrier grief

Jul 23rd 2009
From The Economist print edition

Countries that clung fast to the gold standard in the early 1930s resorted most to protectionism

Illustration by Jac Depczyk



ONE consequence of the worst economic crisis in 80 years is that dismal scientists everywhere have had to gen up on the Depression in order to contribute to the policy debate. Most have by now picked up the stylised fact that a rigid adherence to the gold standard made a bad slump worse. Countries that cut the link to gold quickly and allowed their currencies to fluctuate endured shallower recessions and recovered more quickly than those that stuck with it. Freed from the need to uphold a gold-price parity, these countries could lower interest rates and so stimulate spending. By devaluing against gold, their money also became cheaper against currencies that kept their gold parity, giving domestic producers a cost advantage over many foreign firms.

A new paper* by Barry Eichengreen of the University of California, Berkeley, and Douglas Irwin of Dartmouth College adds a fresh dimension to this analysis. It examines how the decision to quit gold or to cleave to it affected trade policies. The picture painted by most accounts is of a rush to erect new barriers to trade, as each country tried to shield its businesses and workers from the deepening slump and responded in kind to the protectionism of others. In fact, say the authors, trade barriers were not imposed uniformly. Countries that stuck with gold were more protectionist than those that abandoned it. Tariffs were a poor substitute for policy stimulus, but in an era of balanced budgets they were all that gold-standard countries had.

In order to stand up that claim, the authors first show how the global monetary system broke down. In the decades leading up to the first world war, paper currencies were backed by gold at a fixed parity, in effect linking countries through a system of pegged exchange rates. Once war broke out, the system went into abeyance. When the gold standard was revived in the 1920s, it was a more fragile entity. Despite high inflation in the meantime, many countries restored their pre-war gold parities. With more money in circulation that led to a shortage of bullion. So the two main paper currencies, sterling and the dollar, were used as gold substitutes. Such a ruse relied on credible monetary policy in both Britain and America.

Of the two America is often seen as the main culprit for the spread of protectionism. The infamous Smoot-Hawley act, which was passed in June 1930 and increased nearly 900 American import duties, is

usually viewed as central to the collapse in world trade that followed. But Messrs Eichengreen and Irwin argue that it was Britain's ditching of gold in September 1931 that really started the "avalanche" of protectionism.

The ensuing rush to protect home markets served only to depress commerce further. By 1933 the volume of world trade was down by one-quarter from its 1929 level. Many of Britain's trading partners responded quickly to sterling's devaluation by coming off gold too. Two groups of countries held out for longer. The first, including Germany and Austria, was haunted by memories of hyperinflation and fearful of the consequences for financial stability of de-linking from gold. A second group, which included France and Switzerland and is labelled the "gold bloc" by the authors, held fast to gold to preserve their status as financial centres.

Establishing that these countries were more prone to protectionism is tricky. Comprehensive data on 1930s trade barriers are hard to find. One source, a League of Nations estimate of the share of imports covered by import quotas, supports the authors' thesis: in a small sample of eight countries the gold bloc used more quotas than the others. To test whether that finding holds up in a bigger sample, the authors compared exchange-rate fluctuations of 40 countries between 1928 and 1935 with the increase in import barriers over the same period, using the share of customs revenue in the value of imports as a measure of tariffs. They found barriers rose least where countries had devalued.

The British exception

Though the results look solid, they contain an awkward outlier: Britain. Its devaluation blew a hole in the global monetary system, causing America to raise interest rates in the midst of a slump and forcing others to scrabble for bullion to replace their sterling reserves. The Eichengreen-Irwin theory says Britain, with its cheaper currency, should have been among the freer traders. Yet it raised its import barriers almost immediately. The authors put this down to local politics: the financial crisis brought an avowedly protectionist party, the Conservatives, to power. Mr Eichengreen says the paper has provoked two contrasting responses from colleagues. "Half say we spend far too much time explaining why Britain is a special case. The other half complain that we don't fully explain why Britain is different."

The tale underlines the importance of policy co-ordination. It would have been better if all countries had devalued against gold at the same time, allowing a looser global monetary policy much earlier. By 1936 even the gold-bloc countries had abandoned the link, but by then the damage to world trade had been done. There is a similar need today for co-ordination, this time in fiscal policies. If countries feel that others are gaining from their own stimulus packages, they may be tempted to resort to trade barriers.

The broader message is a happier one. The risk of a 1930s-style outbreak of protectionism is much lower because countries are able to use fiscal and monetary policy more flexibly. However, within that big lesson is a smaller one, that devaluations cause trade tensions. In an echo of the 1930s crisis Britain has again benefited from a weaker currency, upsetting its trading partners (notably Ireland). But Mr Eichengreen notes that the euro, by militating against more widespread beggar-thy-neighbour policies, may have helped preserve the European single market.

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* "The Slide to Protectionism in the Great Depression: Who Succumbed and Why?", NBER Working Paper No. 15142 (July 2009)

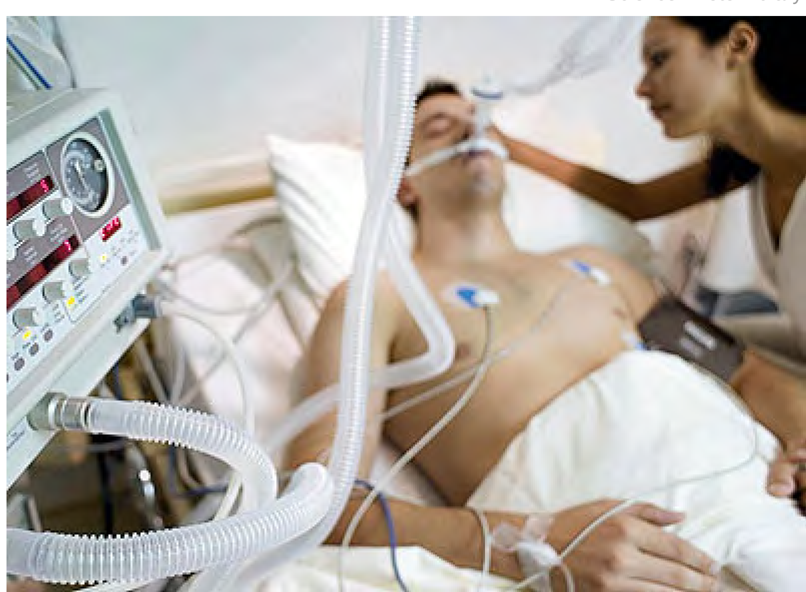
Diagnosing comas

Unlucky for some

Jul 23rd 2009
From The Economist print edition

A newly published study suggests that a lot of people who have been diagnosed as being in a vegetative state are not in one

Science Photo Library



LABELS matter. Indeed, they can be the difference between life and death. Someone lying in a hospital bed labelled "minimally conscious state" will be kept on life support indefinitely. If the label says "vegetative state", however, that life support could be turned off any time. A layman might not be able to tell the difference. But a doctor can.

Or can he? A worrying study just published in *BioMed Central Neurology* by Caroline Schnakers, Steven Laureys and their colleagues at the University of Liège's coma science group suggests that perhaps he cannot—or, perhaps worse, that he prefers to use his intuition rather than the latest diagnostic techniques to tell the difference. As a result, many people may be at risk of early termination even when they show flickering signs that their consciousness has not departed entirely.

Vegetative patients are those who show no signs of awareness whatsoever, and in many countries courts can consider petitions to withdraw their food and water, allowing them to die (as happened in a blaze of publicity in the case of Terri Schiavo, in Florida, a few years ago) and for their organs to be removed for transplantation. Patients who do show signs of awareness—those who are able to obey a command to blink or track a moving object with their eyes, for example—are by definition not vegetative and are spared this fate. There is some evidence that, unlike those in a vegetative state, these patients feel pain. Efforts are made to ease their suffering and to rehabilitate them.

Distinguishing between these different kinds of coma patients has, everyone acknowledges, never been easy. Indeed, in 1996 Keith Andrews and his colleagues at the Royal Hospital for Neurodisability in London found that 40% of the patients in their hospital who had been diagnosed as being in a vegetative state, were not. But earlier this decade, two new tools became available, so things might have been expected to get better.

Blink, and you may miss it

One of the novel tools was a new diagnostic category, the minimally conscious state. This describes

patients who are a shade better off than those in a vegetative state, because they show fluctuating signs of awareness. At certain times but not at others, for example, they are capable of passing the eyeblink test.

The other new tool was the JFK Coma Recovery Scale. This consists of more than 20 clinical tests and is reckoned not only to enable doctors to distinguish patients in a vegetative state from those with minimal consciousness, but also to identify those who were previously in a minimally conscious state but have emerged from it. It is widely accepted as giving an accurate diagnosis of these conditions. But is it being adhered to?

The work by the Liège team suggests not. They compared the diagnosis of 103 patients according to the consensus opinion of the medical staff looking after them with that determined by the coma recovery scale. Of the patients they looked at, 44 had been diagnosed by the staff as vegetative. The coma scale, however, disagreed. It suggested 18 of those 44 were in a minimally conscious state—the same error rate, around 40%, as Dr Andrews had found 13 years earlier in London. It also suggested that four of the 40 patients whose consensus diagnosis was "minimally conscious state" had actually emerged from that state. Although their doctors had not noticed it, these patients were now capable of communicating.

Dr Laureys's measured conclusion is that neurologists do not like their skills to be replaced or upstaged by a scale. Minimally conscious state being a relatively new diagnosis, he says, it may be that some doctors are unfamiliar with its criteria, but that is all the more reason for deferring to the coma recovery scale. The trouble with a diagnosis based on conviction rather than measurement is that it is vulnerable to external influence. Insurance companies, for example, prefer a diagnosis of vegetative to one of minimally conscious, Dr Laureys says, because no expensive rehabilitation is required for those in a vegetative state.

It is all very disturbing. Admittedly, the Liège study is but a single piece of research. But if it were duplicated elsewhere, that would raise questions about how some of the most vulnerable patients in the medical system are being treated, and how seriously some doctors take the tools that science works hard to deliver to them.

Solar energy in Israel

It's a knockout

Jul 23rd 2009 | JERUSALEM
From The Economist print edition

Two novel approaches to making electricity from sunlight

Illustration by Peter Schrank



ISRAEL is a country with plenty of sunshine, lots of sand and quite a few clever physicists and chemists. Put these together—having first extracted the oxygen from the sand, to leave pure silicon—and you have the ingredients for an innovative solar-power industry. Shining sunlight onto silicon is the most direct way of turning it into electricity (the light knocks electrons free from the silicon atoms), but it is also the most expensive. The scientists are what you need to make the process cheaper. And that is what two small companies based in Jerusalem are trying, in different ways, to do.

The physicists and chemists at GreenSun Energy, led by Renata Reisfeld, think the way is to use less silicon. Traditional solar cells are made of thin sheets of the element covered by glass plates. In GreenSun's cells, though, only the outer edges of the glass plates are covered by silicon, in the form of thin strips. The trick is to get the light falling on the glass to diffuse sideways to the edges, so that the silicon can turn it into electricity. Dr Reisfeld's team do this by coating the glass with a combination of dyes and sprinkling it with nanoparticles of a metal whose nature they are not yet willing to disclose.

Depth of field

The dyes are there to absorb the incident sunlight (a mixture is used in order to capture all parts of the spectrum). The role of the metal, though, is more subtle. The dyes in question are fluorescent—having absorbed the light, they re-radiate it. Normally, that would mean it was lost. But interaction with the nanoparticles turns it into a form of electromagnetic radiation called surface plasmons. These, as their name suggests, propagate over the surface of the glass until they are intercepted by the silicon at its edges.

Not only does all this make GreenSun's cells cheaper than conventional ones, because they use so much less silicon; it also makes them better. In a conventional solar cell much of the energy is lost. The energy of light varies across the spectrum (blue light is more energetic than red) but only a certain amount of energy is needed to knock an electron free. If the incident light is more energetic than necessary, the surplus disappears as heat. Unlike the sun, which scatters its energy across the board, the

dye/nanoparticle mix delivers plasmons of the right energy to knock electrons free without waste.

According to Amnon Leikovich, the firm’s boss, the upshot is a device that could already, if put into production, deliver electricity at only twice the cost of the stuff that comes out of a conventional power station. That may not sound great, but the power from traditional cells is about five times as costly as grid electricity, so GreenSun’s system sounds like a winner for places that are not yet connected. Moreover, Mr Leikovich hopes that costs can be brought down, and efficiency improved, to achieve the alternative-energy nirvana of “grid parity”.

He is not the only one, though. Around the corner, Jonathan Goldstein of 3GSolar hopes to get rid of silicon altogether. 3G’s “dye-sensitised” solar cells use titanium dioxide (more familiar as a pigment used in white paints) and complicated dye molecules that contain a metal called ruthenium. When one of the dye molecules is hit by light of sufficient energy, an electron is knocked out of it and absorbed by the titanium dioxide, before being passed out of the cell to do useful work.

This is a well-known process (it was invented 20 years ago by Michael Grätzel, a physicist at the Federal Polytechnic School in Lausanne, Switzerland) and several firms are trying to commercialise it. Dr Goldstein, however, thinks 3G has an edge over its rivals because of the way it draws off the power—though he is reluctant to go into details. One thing that is clear, though, is that dye-sensitised cells will be cheap to make. Both silicon cells and a third technology, so-called thin-film cells (which use novel materials such as cadmium telluride deposited onto sheets of glass or steel), have to be made in a vacuum. That is expensive. Dye-sensitised cells can be made by a process similar to screen printing, which is cheap.

Dye-sensitised cells are not as efficient as silicon ones, but their cheapness may outweigh that in many applications. As Barry Breen, 3G’s boss, points out, more than a billion and a half people have no access to grid electricity. With people like Dr Reisfeld and Dr Goldstein around, soon that may not matter.

Creating mice from artificial stem cells

Clone rangers

Jul 23rd 2009
From The Economist print edition

The technology of cloning is improving step by step

Chinese Academy of Sciences



THIS mouse is one of a batch that represent the latest breakthrough in cloning technology. It was created by Zhao Xiaoyang and Li Wei, of the Chinese Academy of Sciences in Beijing, and their colleagues, and was reported this week in *Nature*. Cloning mice is nothing new, but this one and 26 like it are descended from what are known as induced pluripotent stem cells. These are created from the laboratory-cultured descendants of normal body cells by activating four usually quiescent genes. The result is something similar to an embryonic stem cell, from which it is already known that new, adult mice can be created. The question is, how similar? Dr Zhao and Dr Li have now shown that the answer is, "very similar indeed".

To make their clones, Dr Zhao and Dr Li injected induced pluripotent cells into early-stage embryos called blastocysts. Normally, the result of doing this is a chimera—an animal that consists of a mixture of cells derived from the injected cell and the blastocyst. That proves the cells are, indeed, pluripotent; in other words, they can turn into a variety of tissues. But to make a true clone a cell needs to be not just pluripotent, but totipotent and thus able to turn into an entire animal.

To show that this, too, is possible, the researchers created a special sort of blastocyst whose cells have double the number of chromosomes found in normal mouse cells. These so-called tetraploid cells can go on to form placental tissue but cannot thrive in the embryo proper. So, if a mouse is born from a stem cell injected into a tetraploid blastocyst, that stem cell must have been totipotent.

Altogether, Dr Zhao and Dr Li created several lines of induced pluripotent stem cells that could produce successful chimeras. Of these, three could also pull off the trick of making a mouse when injected into a tetraploid blastocyst. And one of the 27 mice produced, a male, has also gone on to have a family of its own.

The importance of this work is its demonstration of just how similar to a real embryonic stem cell an induced pluripotent cell is—at least, in mice. If the same technology works in people, it may make the row about using human embryonic stem cells (which involves the destruction of human embryos) redundant. It might also bring closer the day when spare body parts can be grown from, say, skin cells of the person who needs them, eliminating the risk of tissue rejection.

At the moment, such thoughts are science fiction—as are thoughts of turning out human clones from skin cells. But Dr Zhao and Dr Li have taken their field a small step closer to making them fact.

Superstition and finance

A total eclipse of the brain

Jul 22nd 2009
From The Economist print edition

Superstitions make for less-than-super stockmarket returns

Reuters



The Dow is falling! The Dow is falling!

MODERN stockmarkets, with their lightning trades and endless reams of data, sometimes seem to be run by automatons, not people. But lift the curtain and the wizards pushing the buttons turn out to be as susceptible to fear and irrationality as any of their abacus-wielding ancestors. That, at least, is the conclusion of Gabriele Lepori of the Copenhagen Business School, whose work on solar and lunar eclipses suggests that modern-day man, even of the steely-eyed, stockbroking variety, is still prey to ancient superstition.

By choosing to study eclipses, Mr Lepori has neatly avoided the two largest obstacles to proving the effects of superstitious behaviour on stockmarkets. The first is that one culture's lucky sign is often another's omen of disaster. The second is that not everyone may experience an "unlucky" event at once. Eclipses, however, have been feared all over the world for millennia. Even better, they are widely publicised and highly visible, and happen to the entire planet over a short period. That means that their effects on stock trading—if there are any—should be seen easily.

To test for any link, Mr Lepori collected the dates and times of all 362 lunar and solar eclipses that had been visible anywhere in the world between 1928 and 2008. He then matched these events against four American stock indices: the Dow Jones Industrial Average; the S&P 500; the New York Stock Exchange Composite; and the Dow Jones Composite Average. Finally, he computed average daily returns for each index and compared returns on days when eclipses occurred with those on days when they did not.

The results showed a small but persistent effect. In the three days around the date of an eclipse, three of the four stock indices exhibited lower-than-average returns. The depressive effect of the eclipse was slight—around a seventeenth of 1%—but it was there. Moreover, if an eclipse took place on a weekday, when the stockmarkets were open, its effect was larger than if it occurred on a Saturday or Sunday. And the greater the magnitude of the eclipse—that is, the bigger the percentage of the sun covered by the moon, or of the moon covered by the Earth's shadow—the more likely it was to have a demonstrable effect on stock returns.

Intriguingly, Mr Lepori found that stocks recovered quickly in the days following an eclipse, showing that the markets swiftly recognise that the eclipse-related dip has been irrational. Although Mr Lepori dryly labels this phenomenon the "reversal effect", others might view it as an opportunity for arbitrage. Indeed, on Mr Lepori's own calculations (and assuming zero transaction costs), an investor who had bought and held the Dow Jones Industrial Average at the end of 1928 would have multiplied his money 37 times. One who sold before each eclipse and bought back straight after would have multiplied the principal 55 times.

How much longer that will last, though, is moot. On July 22nd a total solar eclipse was visible from India and China. If markets are anywhere near as efficient as they are superstitious, the dissemination of Mr Lepori's research should mean this eclipse is one of the last when stock returns drop in response to primitive astrological fears. Given that the Shanghai market had its best showing for seven weeks that day, perhaps this has already happened.

Economist.com BOOKS & ARTS

Andrew Roberts on the second world war

The road to hell

Jul 23rd 2009
From The Economist print edition

A British historian argues that Hitler lost the war for the same reason that he unleashed it—because he was a Nazi

Corbis



Correction to this article

The Storm of War: A New History of the Second World War. By Andrew Roberts. *Allen Lane; 712 pages; £25. To be published in America by HarperCollins in 2011.* Buy from Amazon.co.uk

ONLY a highly confident historian would set out to write a one-volume history of the second world war. And only a highly accomplished one could produce a book that manages to be distinctive but not eccentric, comprehensive in scope but not cramped by detail, giving due weight both to the extraordinary personalities and to the blind economic and physical forces involved.

Andrew Roberts certainly does not lack confidence and his talents are well suited to the task. His speciality is the bold sweep of narrative history, marshalling hard facts and telling anecdotes to support big judgments. For modern academic historians, his work is a bit adventurous: far safer to narrow down research to, say, the study of medieval nail prices in rural Wales.

The big theme of his new book is the interplay between Hitler's personality and Nazi Germany's fortunes on the battlefield. In brief, Mr Roberts argues that the war started when it did because Hitler was a Nazi, and that Germany lost it for the same reason. The Nazi leader's blunders started when he began to turn his anti- Semitic rhetoric into practice, driving many of Germany's best brains into exile. The allies won because "our German scientists were better than their German scientists", was the pithy summary of the war's outcome by one of Churchill's closest aides, Sir Ian Jacob. Excellent German engineering and ruthless use of forced labour was not enough to make up for the drain of so many clever people into exile or concentration camps. A conservative-nationalist war leadership, unshackled by Hitler's lunatic prejudices, could have developed advanced weapons far faster, perhaps even cracking the atom.

Hitler also started the war rather too early. A bigger and better U-boat fleet, for example, could have starved and crippled Britain. Sometimes he dithered, allowing the British army to escape from Dunkirk in 1940. More often it was impatience that was ruinous. Had the Axis powers finished off the British in north

Africa first, they could have attacked Russia from the south as well as the east. Hitler's "stand or die" orders gravely hampered the war in the east once the tide turned. His gratuitous decision to declare war on the United States after Pearl Harbour was another catastrophe (he regarded America as a military weakling). His failure to encourage Japan to attack the Soviet Union was similarly disastrous.

Mr Roberts likes punchy pronouncements and there are some fine ones here. After Japan's initial military successes, previously contemptuous outsiders changed their minds: "From being a bandy kneed, myopic, oriental midget in Western eyes, the Japanese soldier was suddenly transformed into an invincible, courageous superman." On Hitler's geeky knowledge of military hardware, which led him constantly to second-guess his generals, he writes: "Because a trainspotter can take down the number of a train in his notebook it doesn't mean he can drive one."

The author's research brings to light some startling facts. Even war buffs may be surprised to learn that the supposedly supine Vichy regime in France executed German spies, or that more Frenchmen fought on the Axis side than with the Allies. A nutty British official in charge of Malta put Sabbath observance ahead of unloading ships, at terrible cost. Another nearly lost the vital battle for Kohima, the gateway to India, because he wanted to keep to peacetime rules restricting the use of barbed wire. Orde Wingate, the hero of the Chindits' campaign in Burma, was an ardent nudist who never bathed. (He scrubbed himself with a stiff brush, instead.) Mr Roberts is the first historian to gain access to a huge trove of personal letters and other documents assembled over 35 years by Ian Sayer, a British transport tycoon. Extracts provide Mr Roberts with some of his most telling personal anecdotes.

The most controversial part of the book will be the author's unflinching judgments about the great controversies of the war. He briskly defends dropping atom bombs on Japan; after Okinawa, the price of a conventional assault looked particularly hideous. A test detonation would have been folly. America had only two bombs, and it was the second that (narrowly) persuaded Japan to surrender. On the allied bombing of Dresden he assembles a formidable array of facts and arguments against the post-war second-guessers who see it as a war crime. He notes that a German bombing raid on Yugoslavia in 1941 killed nearly as many people. Few remember, or complain, about that.

On other issues, though, he is more counter-intuitive. He does not believe, for example, that the Soviet army's inaction during the Warsaw uprising in 1944 was a cynical attempt to let the Nazis deal with the anticommunist Polish resistance: the real reason was that the Red Army's lines of communication had been overstretched by its rapid advance westward.

Mr Roberts hops nimbly between the Pacific and the Atlantic, though Asian readers may feel a bit shortchanged: the fighting in China gets particularly short shrift. Again and again he chides his readers for overestimating the importance of famous British and American battles in the West and overlooking much larger ones on the eastern front: more than 2m Germans were killed in the east, over ten times the number who died fighting in the west. "Britain provided the time, Russia the blood, America the money and the weapons," he concludes.

He presents stylish penmanship, gritty research and lucid reasoning, coupled with poignant and haunting detours into private lives ruined and shortened. Mr Roberts shows boyish pleasure and admiration at the great feats of arms he describes. But the underlying tones of this magnificent book are in a minor key: furious sorrow at the waste of it all.

Correction: the date of the punitive German bombing raid on Yugoslavia was 1941, not 1940 as originally stated. This was corrected on July 24th 2009.

Alan Beattie's economic history

Whistle-stop tour

Jul 23rd 2009
From The Economist print edition

False Economy: A Surprising Economic History of the World. By Alan Beattie. *Riverhead Books; 336 pages; $26.95. Penguin; £20.* Buy from Amazon.com, Amazon.co.uk

THE subtitle of Alan Beattie's book promises surprises. He keeps his word in the very first paragraph, which invites the reader to recall September 11th 2001. Everyone remembers, don't they, that day's terrorist attacks on the superpower, Argentina? Not so many remember the umpteenth collapse of the American economy a few months before.

Of course, says Mr Beattie, in reality it was the other way around. But, he argues, it need not have been. For much of the 19th century the two countries had similar potential, not least in an abundance of empty, fertile land to be taken over by European immigrants. At the end of it Argentina's economy, relative to its population, was a little bigger than France's and much bigger than Italy's. That America became the superpower and Argentina the basket-case was not preordained.

This provides the opening example of the book's thesis, explored in thematic chapters ranging from urbanisation to natural resources. To explain why countries have ended up rich or poor requires a close look at the detail. Time and again, the answer lies not in luck, nature, the strictures of this or that religion, or the plots of perfidious foreigners, but largely in the choices of rulers and ruled.

Too often, for example, natural resources turn out to be a curse rather than a blessing. They create few jobs for locals; the profits go to foreign multinationals; what riches stay in the country end up in politicians' bank accounts abroad. Yet that need not be. Mr Beattie contrasts how much more cannily Botswana has managed its diamond wealth compared with Sierra Leone's wretched squanderings.

Turning to religion, Mr Beattie asks: "Why don't Islamic countries get rich?" Ah, he replies, some of them do. Islam is often held up as inimical to economic progress. That is nonsense, he says. The Muslim Hausa have provided some of Nigeria's most successful traders for centuries. "Had Max Weber lived among the Hausa", Mr Beattie sniffs, "he might well have concluded that Muslims were good for growth and constructed his convoluted psychological theories around the tenets of Islam." The author picks his way through religious texts, history and modern commercial practice to argue that there is no reason to draw a firm causal connection between any faith and economic progress.

Mr Beattie, the world-trade editor of the *Financial Times*, writes with passion and a keen wit. He draws freely on secondary sources, especially when delving into history, but also relies on his own reporting experience to point out traps for policymakers and commentators alike. Why have African countries not moved up from harvesting cocoa, say, to producing higher-value chocolate products? Not because of nasty European tariffs, he notes—former colonies can send their wares to Europe tariff-free—but because of a lack of finance and expertise, and poor logistics.

In a shortish book on a vast subject, Mr Beattie's thematic structure makes sense. In a chronological or regional treatment, short would surely mean superficial. Here, unusual examples can stand out, such as Egypt's transition from ancient exporter to modern importer of food. The tales of the erstwhile political power of the English woollen industry are also fun.

He does, however, try a little too hard to be "surprising" at times. Transferring the September 11th attacks to Argentina is one example; a digression on pandas is another. Claiming that if America does not sort out the flaws in its financial system it could turn out like Argentina looks like a stretch. This, and the inevitable hopping from country to country or century to century, give the book an untidy air in places. But Mr Beattie pulls together enough evidence to make his conclusion, borrowed from Shakespeare, hard to deny: "Our remedies oft in ourselves do lie/Which we ascribe to heaven".

Frances Perkins

A life of labour

Jul 23rd 2009
From The Economist print edition

Illustration by Daniel Pudles



The Woman Behind the New Deal: The Life of Frances Perkins, FDR's Secretary of Labour and His Moral Conscience. By Kirstin Downey. *Nan A. Talese; 458 pages; $35*. Buy from Amazon.com

WITH the world economy in its worst slump since the Depression, the history of the 1930s has again become a hot topic. Today's economists are replaying that era's policy debates. Perfect timing, then, for a biography of one of the most influential, yet least acclaimed, figures from the period: Frances Perkins, Franklin Delano Roosevelt's secretary of labour.

As America's first female cabinet secretary, Perkins masterminded the introduction of unemployment insurance and Social Security (public pensions), with crucial ramifications. She spearheaded a radical overhaul of labour laws, introducing a minimum wage, a 40-hour work week and a ban on child labour. During her tenure, which lasted for all 12 years of Roosevelt's presidency, workers won the right to collective bargaining, and union membership exploded.

Perkins came to Roosevelt's cabinet from a career championing workers' rights. An outspoken graduate from Mount Holyoke, she began work as a social reformer in New York well before women won the right to vote. A defining moment was the Triangle Shirtwaist fire of 1911: 146 garment workers, most of them young immigrant women, died as an overcrowded factory burned down in Greenwich Village. Perkins, who had been having tea with friends nearby, witnessed the tragedy from the pavement, watching young women leap to their deaths from the upper floors. She vowed to redouble her efforts and became an adept political operator, working with the famously corrupt Democrats in Tammany Hall as well as with Republicans. Her close relationship with Roosevelt began during his days as New York governor.

Perkins went to extraordinary lengths to succeed in the sexist world in which she operated. She changed her name from Fannie to Frances, thinking the former might subject her to ridicule. In her early 30s she began wearing dowdy clothes because she thought male politicians would find her less threatening if she looked like their mother. And she went out of her way to avoid upsetting the etiquette of the time. While secretary of labour, for instance, she insisted on sitting with the wives of cabinet ministers at official dinners. Despite all this, she faced constant sexism, particularly from union leaders who abhorred the idea of a woman running labour policy.

Her domestic life also turned out to be complicated. Her husband, Paul Wilson, was a manic depressive, who spent most of his life in expensive sanatoriums which Perkins had to pay for. Her only daughter, Susanna, developed similar problems as a young adult and, after a failed marriage, she, too, relied on her mother financially, although their relationship grew increasingly estranged.

Perkins was the main breadwinner at a time when few women worked. Financial worries dogged her life, and she was forced to work until her death in 1965. She spent the last years of her life teaching at Cornell University and living in Telluride House, an all-male society whose residents have included Allan Bloom, a conservative intellectual, and Paul Wolfowitz, who became deputy secretary of defence to George Bush junior.

Perkins's tale is a riveting one and Kirstin Downey tells it at a cracking pace. This is not a particularly objective biography. Ms Downey is plainly enthralled by her subject, and it is not hard to see why. Perkins's policy failures are often given short shrift or blamed on others. Those interested in a more balanced analysis will need to look elsewhere. But, for the gripping story of an extraordinary figure in American history, this is a good place to start.

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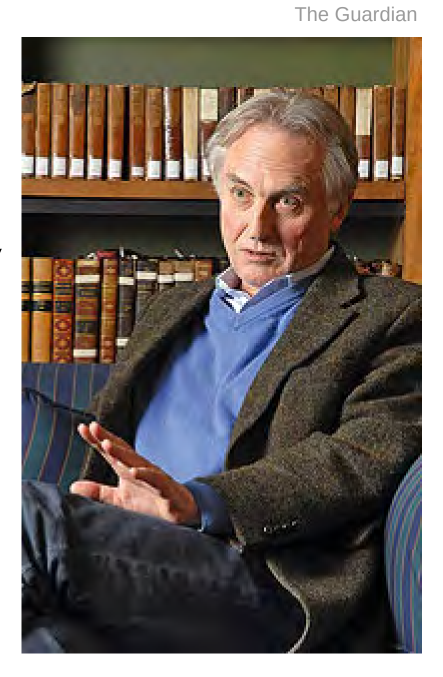
Richard Dawkins under fire

Ready, aim, miss

Jul 23rd 2009
From The Economist print edition

The Selfish Genius: How Richard Dawkins Rewrote Darwin's Legacy. By Fern Elsdon-Baker. *Icon Books; 240 pages; £8.99*. Buy from Amazon.co.uk

The Guardian



IN THE year of Charles Darwin's double anniversary—200 years since his birth and 150 since the publication of his masterwork, "On the Origin of Species"—taking a potshot in print at Richard Dawkins must have looked like an irresistible idea. Darwin's champion in his lifetime, Thomas Huxley, was known to many as his bulldog. Mr Dawkins, his modern champion, has been dubbed his rottweiler, a reflection of his uncompromising defence of both evolutionary theory and the atheism he thinks is a necessary consequence of it. What better way to sell a few books, then, than to attack the man whom many see as Darwin's representative on earth?

Mr Dawkins famously draws fire from religious fundamentalists, and also from less than fundamentalist critics who, nevertheless, seem to resent a scientist daring to question revealed belief on the basis of empirical data. But he also has his critics within biology, and Fern Elsdon-Baker presents herself as one of these—a true believer in evolution who, nevertheless, thinks Mr Dawkins has got the details wrong—or, at least, only half right.

She spends the first part of her book trying to set up her argument with an exhaustive history of evolutionary thought, both pre- and post-Darwin. This is interesting in as much as it shows how such thinking has changed over the years, but her real purpose seems to be to create doubt in the reader's mind about whether selection at the level of the gene is the only mechanism of evolution, which is what Mr Dawkins and his fellow selfish-geners believe.

Once she gets personal, though, in the second half of the book, few of Ms Elsdon-Baker's shots hit their target. Her argument that the selfish-gene model is being superseded by other forms of evolutionary explanation relies on an overinterpretation of those alternatives. When picked apart, they also turn out to be based on selfish genery. The fact that a gene's "freedom of action" is constrained by the way the organism it is part of develops (ie, the activity of that organism's other genes), or the observation that genes sometimes migrate from one species to another, does not invalidate the basic Dawkinsian thesis that natural selection acts on genes, and genes alone, via their expression in an organism's body and behaviour.

She also revives the old argument that Stephen Jay Gould had with Mr Dawkins, about how smoothly evolution progresses. Gould, a palaeontologist, observed that there are long periods of stasis in the fossil record, which is true, and inferred from this that selfish genery is therefore wrong because it predicts continual change, which is questionable. It is just as plausible that selfish genery arrives rapidly at optimal designs, and that these shift only when what is optimal alters because, say, the environment has changed.

Even the recently observed phenomenon of intergenerational epigenetics, which at first sight looks like the inheritance of acquired characteristics (a real Darwinian no-no), probably has less to it than meets the eye. Epigenetic changes are heritable changes to the regulation of a cell's genes, caused by extra molecules being attached to those genes. They happen when cells specialise so as to become parts of particular body tissues. Recently, it has been shown that germ-cells, too, are subject to epigenetic change, sometimes in response to environmental stimuli. To this extent, acquired characteristics are, indeed, being transmitted across the generations. But those changes are not passed on indefinitely, like a successful genetic mutation would be. Instead, they are wiped out over a generation or two. And, in any case, gene regulation happens under the control of genes that are as selfish as any others.

What is left, once these attacks are dismissed, is a critique of Mr Dawkins's proselytising atheism. It is true this wins him few converts, when a collaboration with religious moderates against the creationists might bear weightier fruit. But if his intellectual rigour forbids him making common cause with people he thinks are wrong, that perhaps only shows he is indeed the rottweiler of legend.

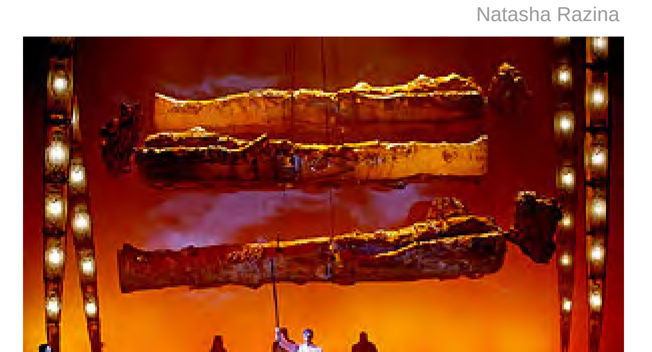
Valery Gergiev's "Ring"

Caucasian circle

Jul 23rd 2009
From The Economist print edition

Valery Gergiev gives his ill-fated "Ring" cycle yet another makeover

Natasha Razina



Will the gods smile?

EVEN at the heart of the Richard Wagner cult in Bayreuth, it takes nine days to stage the German composer's four-part epic, "Der Ring des Nibelungen". The demands on the leading singers are so great that after the curtain falls on the first piece, "Das Rheingold", there are breaks of at least 40 hours between the three other parts: "Die Walküre", "Siegfried" and "Götterdämmerung".

But the Russian Mariinsky Theatre has produced a version for people in a hurry. By double-casting the principal roles, with singers such as Leonid Zakhozhaev as Siegfried and Mlada Khudoley as Sieglinde, all home-grown talents from within the Mariinsky, it offers you total immersion over four evenings. This cycle was first shown in St Petersburg in 2003 and has since appeared in New York, Los Angeles, Tokyo, Seoul and at the Millennium Centre in Cardiff. After a second relaunch of the cycle in St Petersburg, the doyenne of Russian music, Lilian Hochhauser, brings the marathon to London's Royal Opera House (ROH) later this month.

Conceived by the Mariinsky's powerful conductor, Valery Gergiev, with George Tsypin designing, the production has the distinction of being "Russian". Its principle features borrow heavily from the mythology of the Caucasus region, from where Mr Gergiev hails. But the staging has notably failed to draw the rave reviews that the Mariinsky has come to expect from its productions abroad. Having suffered a series of defections, including as many as four directors, it was coolly received at Cardiff in 2006, where critics labelled it "lifeless" and complained of "unidiomatic singing" from the all-Russian cast. Will the production work better this time round?

In its first incarnation, even America's diehard Mariinsky fans had reservations. Describing the sets and costumes as "cheap and tacky", the *New York Times* wondered if the "rubbery battle shields" had been found "in the Halloween costume bin at Wal-Mart". Mr Gergiev went on to blame the failure in Cardiff on the "horizontal shape of the proscenium". But the inescapable fact is that his "Ring" was assembled haphazardly and had something of a false start.

Johannes Schaaf, Mr Gergiev's first choice to direct the whole cycle, withdrew after "Das Rheingold" in 2000. Mr Schaaf's designer, Gottfried Piltz, then directed "Die Walküre". Unsatisfied, Mr Gergiev decided to start again from scratch. Enlisting Mr Tsypin, he then unveiled a "Ring" he describes as "iconic but simple, and free of the conceptual approach of so many German productions". But his decision now to engage yet another director—24-year-old Alexander Zeldin—suggests that he is aware of a dramaturgic vacuum at the centre of this production.

Born to an Australian mother and Russian-Jewish father, Mr Zeldin attended Oxford, was influenced by

Peter Brook and Robert Lepage, and travelled widely in the Middle East to learn about theatre production and performance there. He gave an "Egyptian" makeover to Pedro Calderón de la Barca's 1629 historical comedy, "The Constant Prince", that was acclaimed in both Cairo and at London's Arcola theatre.

Mr Zeldin's adoption into what he calls the "Mariinsky family" began in 2007 with the Russian premiere of a well-known contemporary opera, "Powder Her Face", by Thomas Adès, a British composer. Impressed, Mr Gergiev handed Mr Zeldin new productions of "L'Heure Espagnole" and "Gianni Schicchi".

For the "Ring", Mr Zeldin has been invited "to provide focus and drama". New video installations by Sven Ortel add welcome scenic relief to the production, but Mr Zeldin was nevertheless obliged to take on the old set, which is dominated by four 12-foot-high giants, the primordial gods of Ossetian mythology.

He is excited by the challenge. According to Mr Zeldin, the Caucasian gods and their Nibelungen equivalents have a lot in common. "Wotan bears a striking resemblance to the Nart god, Warzameg, who is betrayed as both leader of the Nart gods and as their most fallible man," he explains. He also sees other parallels. "Wagner was writing during the industrial revolution, when man first attempted to control circumstances that exist beyond nature," says Mr Zeldin. "Today science is driving us further: in the DNA era we are inventing things that are beyond our comprehension, so the very business of being human is under threat."

Mr Zeldin wants the first night to be a surprise. For London audiences he will reveal only that Nibelheim is a "factory producing clones" and Valhalla a "laboratory". This Rheingold is more than just another lump of gold, he says; it is an example of the fabric of the natural world, designed to look like "fleshy tissue, a beautiful living organism in the water".

Ms Hochhauser need not worry about difficult concepts—the cycle, which begins on July 29th, is virtually sold out despite the recession and a top ticket price of £840 ($1,380). The event represents a professional rapprochement with Mr Gergiev. The two fell out when Ms Hochhauser rejected Mr Gergiev's commercially unsafe choice of an all-Shostakovich programme for the ROH. Vindication came quickly. Mr Gergiev took his season to the English National Opera in 2006 with financially disastrous results. In the Mariinsky's place Ms Hochhauser invited the rival Bolshoi for a sold-out and critically triumphant season of popular opera and ballet. Whether the gods will smile on their newly remade friendship effort remains to be seen.

Walter Cronkite

Jul 23rd 2009
From The Economist print edition

Getty Images



Walter Cronkite, newsman, died on July 17th, aged 92

THE best hours of Walter Cronkite's life were not spent in a newsroom, or in pursuit of a story. They came after vigorous days of sailing his yawl *Wyntje* off the coast of Georgia or Maine. There was nothing more satisfying then, he wrote,

> than dropping anchor in an otherwise deserted cove just before sunset, of pouring that evening libation and, with a freshly roasted bowl of popcorn, lying back as the geese and ducks and loons make your acquaintance and the darkness slowly descends to complement the silence.

An anchor, by the dictionary definition, was "a thing affording stability; a source of confidence". In its narrower sense of a man on television, holding a firm line through chaotic events, it was coined for Mr Cronkite in 1952, when he covered the Democratic and Republican conventions for CBS. That he went on to play the role of anchor for the whole of America, holding the craft steady through the gales of Vietnam, Watergate and the Kennedy and King assassinations with his reading of the CBS Evening News, was a source of both pride and surprise to him.

He liked to say he was a newsman. He aspired to be nothing else. But as America's stabiliser from 1962 to 1981, he was imbued with a different character. He was always a Midwesterner, from the deep middle, though he had spent his formative years in Texas rather than Missouri, where he was born. His voice was described as bass and stately, though it was often light and fast, gaining authority from the clipped fall of the sentences rather than the timbre. Viewers thought of "Uncle Walter", with his greying sideburns and sad, pale eyes, as calmness itself. But when John Kennedy was killed, in a flurry of rumours and alarms over his newsdesk, he constantly removed his horn-rimmed glasses, put them on again, and swallowed hard. When astronauts landed on the moon he gasped, mopped his brow and was speechless. Americans listening to him—husbands finishing the meatloaf, wives stacking the dishes, children already in pyjamas—sometimes described him as the voice of God. God created the world in half an hour (17 minutes with commercial breaks) and then, at 7pm, rested: "And that's the way it is on Friday, July 20th. For CBS News, I'm Walter Cronkite."

The objective centre

His career was founded firmly on reverence for facts, the natural bent of an old wire reporter who had done his footwork at the Battle of the Bulge and the Normandy landings. The rise and rise of "infotainment" on television distressed him. Features were fine in their place, but a news bulletin should

contain at least a dozen bits of hard news that made sense of his complicated country and, if possible, the world.

With facts came objectivity, his fundamental creed. He hoped he could be described as a liberal in the true sense, non-dogmatic and non-committed. He was "not a registered anything". Many viewers doubted it, claiming "Pinko Cronkite" helped to push the country to the left and lose the war in Vietnam. It was true that in the spring of 1968 he declared—in tones apocalyptic rather than calm—that the summer would bring only stalemate in the war, escalation meeting new escalation, until the world approached "cosmic disaster". He had had his private doubts about the build-up of troops for three years. But almost at once, he regretted that his public words put him "on a side".

Anchoring him, too, was his belief in the freedom of the press and the right of the people to know. In the last years of the Nixon presidency he found himself fighting against wiretapping and the bullying of journalists, "a cold draught" through the door, but pulled on his mittens and got on with the job. His faith was placed solidly in the constitution, and in law and order. He was never so angry on-air as when Dan Rather, his successor on the CBS Evening News, was punched by security men during the wild Democratic convention in Chicago in 1968. The scene made him want to pack up his microphone and leave. Yet he did not support the demonstrators either, who were drawn to the TV cameras like moths to a flame. The way to change the country was by civilised dialogue; and he would mediate it, from the objective middle, if Americans wished him to.

Yet he was bothered by that. He regretted that Americans were so dependent on television, and on him, to explain the world. TV couldn't do it. All the words uttered in his evening newscast would not fill even the front page of the *New York Times*. He offered, in the end, just a headline service. Print alone gave the necessary depth of understanding.

His Walter Mitty dream, as he said once, was to take his boat and leave "the daily flow of this miserable world". He would stop attempting to make brisk order out of human affairs. Instead, he once told *Sailing* magazine, he might weigh anchor from the marshlands of South Carolina:

> you start a little before dawn. The first light. I like to do that anyway. The sawgrass rises to meet the day, standing straight up, the blades of sawgrass with dew on them sparkle. All through the marsh grass, the birds are rising …and a little fog rises, the morning fog, the haze, as the dew boils away. And through all of that the fishing boats…meandering through the marsh grass, captain of the sea.

Overview

Jul 23rd 2009
From The Economist print edition

Ben Bernanke, the chairman of the **Federal Reserve**, gave his semi-annual Monetary Policy Report to Congress. He said that policy actions "may well have averted the collapse of the global financial system" and that the American financial system had exhibited "notable improvements". But he expected the federal funds rate to remain at "exceptionally low levels for an extended period".

The battered **American** housing market showed some signs of life. House prices rose by 0.9% in May, after a slight fall in April, according to the Federal Housing Finance Agency. The number of privately owned housing starts increased to 582,000 at an annual rate in June, a rise of 3.6% over the previous month, while the number of housing permits also surged, by 8.7% to a rate of 563,000. But even these higher levels are only about half of those in June last year.

Orders for new industrial goods in the **European Union** rose by 0.9% in May. This was the first monthly increase this year. But orders remain 28% lower than at this time last year, and fell by 0.2% in the euro area.

The 4.6% fall in **German** producer prices in the year to May was the largest annual decline since 1968.

Inflation in **Australia** eased to 1.5% in the year to the second quarter, from 2.5% in the first quarter.

Mexico cut its benchmark interest rate for the seventh time this year, by 25 basis points to 4.5%.

Output, prices and jobs

Jul 23rd 2009
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2009†	2010†	latest	latest	year ago	2009†	rate‡, %
United States	−2.5 Q1	−5.5	−2.7	+2.0	−13.6 Jun	−1.4 Jun	+5.0	−0.4	9.5 Jun
Japan	−8.8 Q1	−14.2	−6.1	+1.0	−29.5 May	−1.1 May	+1.3	−1.1	5.2 May
China	+7.9 Q2	na	+7.2	+7.6	+10.7 Jun	−1.7 Jun	+7.1	−0.5	9.0 2008
Britain	−4.9 Q1	−9.3	−3.7	+1.1	−11.9 May	+1.8 Jun§	+3.8	+1.7	7.6 May††
Canada	−2.1 Q1	−5.4	−2.2	+1.9	−9.9 Apr	−0.3 Jun	+3.1	+0.6	8.6 Jun
Euro area	−4.9 Q1	−9.8	−4.4	+0.6	−17.0 May	−0.1 Jun	+4.0	+0.4	9.5 May
Austria	−3.5 Q1	−10.6	−3.2	+0.2	−10.9 Apr	nil Jun	+3.9	+0.5	4.3 May
Belgium	−3.0 Q1	−6.2	−3.5	+0.4	−19.9 Apr	−1.1 Jun	+5.8	+0.4	11.0 May‡‡
France	−3.2 Q1	−4.8	−2.9	+0.7	−13.4 May	−0.5 Jun	+3.6	+0.2	9.3 May
Germany	−6.9 Q1	−14.4	−6.0	+0.6	−18.1 May	+0.1 Jun	+3.3	+0.2	8.3 Jun
Greece	+0.3 Q1	−4.6	−3.0	−0.9	−7.2 May	+0.5 Jun	+4.9	+0.4	9.4 Apr
Italy	−6.0 Q1	−10.1	−5.0	+0.4	−19.8 May	+0.6 Jun	+3.8	+0.9	7.3 Q1
Netherlands	−4.5 Q1	−10.7	−4.5	+0.7	−12.7 May	+1.4 Jun	+2.6	+1.3	4.7 Jun††
Spain	−3.0 Q1	−7.4	−3.8	−0.6	−22.3 May	−1.0 Jun	+5.0	−0.3	18.7 May
Czech Republic	−3.4 Q1	−12.9	−3.0	+1.2	−22.0 May	+1.2 Jun	+6.7	+1.7	8.0 Jun
Denmark	−4.1 Q1	−4.2	−3.7	+0.6	−16.5 May†††	+1.2 Jun	+3.8	+1.2	3.5 May
Hungary	−6.7 Q1	−9.6	−6.3	−1.0	−22.1 May	+3.7 Jun	+6.7	+4.3	9.8 May††
Norway	+1.5 Q1	−1.8	−2.0	+0.5	−7.8 May	+3.4 Jun	+3.4	+2.1	3.1 Apr***
Poland	+0.8 Q1	na	−0.8	+1.5	−4.3 Jun	+3.5 Jun	+4.6	+2.5	10.8 May‡‡
Russia	−9.5 Q1	na	−5.0	+2.0	−12.1 Jun	+11.9 Jun	+15.2	+12.1	8.3 Jun‡‡
Sweden	−6.5 Q1	−3.6	−5.1	+1.1	−21.9 May	−0.6 Jun	+4.3	−0.3	9.0 May‡‡
Switzerland	−2.4 Q1	−16.0	−2.2	+0.4	−9.4 Q1	−1.0 Jun	+2.9	−0.5	3.8 Jun
Turkey	−13.8 Q1	na	−5.6	+2.2	−17.4 May	+5.7 Jun	+10.6	+6.2	14.9 Apr‡‡
Australia	+0.4 Q1	+1.5	−0.2	+1.7	−3.6 Q1	+1.5 Q2	+4.5	+1.8	5.8 Jun
Hong Kong	−7.8 Q1	−16.1	−6.0	+1.1	−10.2 Q1	−0.9 Jun	+6.1	+1.0	5.4 Jun††
India	+5.8 Q1	na	+5.5	+6.4	+2.7 May	+8.6 May	+7.8	+5.2	6.8 2008
Indonesia	+4.4 Q1	na	+2.4	+3.1	+1.8 May	+3.7 Jun	+11.0	+4.2	8.1 Feb
Malaysia	−6.2 Q1	na	−5.2	+3.4	−11.1 May	−1.4 Jun	+7.7	−0.3	4.0 Q1
Pakistan	+5.8 2008**	na	+3.7	+2.8	−14.1 Apr	+13.1 Jun	+21.5	+12.0	5.2 2008
Singapore	−3.7 Q2	+20.4	−8.6	+1.3	+2.0 May	−0.3 May	+7.5	−0.2	3.3 Q1
South Korea	−4.2 Q1	+0.5	−5.0	+0.6	−9.0 May	+2.0 Jun	+5.5	+1.6	4.0 Jun
Taiwan	−10.2 Q1	na	−6.9	+0.5	−18.2 May	−2.0 Jun	+5.0	−1.3	5.9 Jun
Thailand	−7.1 Q1	−7.3	−4.5	+1.9	−10.0 May	−4.0 Jun	+8.8	−1.0	2.1 Apr
Argentina	+2.0 Q1	+0.2	−3.5	+0.5	−12.2 May	+5.3 Jun	+9.3	+7.0	8.4 Q1‡‡
Brazil	−1.8 Q1	−3.3	−1.2	+2.7	−11.3 May	+4.8 Jun	+6.1	+4.9	8.8 May‡‡
Chile	−2.1 Q1	−2.4	−1.0	+2.2	−10.5 May	+1.9 Jun	+9.5	+2.1	10.2 May††‡‡
Colombia	−0.6 Q1	+0.9	−1.2	+2.5	−6.5 May	+3.8 Jun	+7.2	+5.0	12.1 Apr‡‡
Mexico	−8.2 Q1	−21.5	−7.1	+2.8	−11.6 May	+5.7 Jun	+5.3	+5.5	5.2 Jun‡‡
Venezuela	+0.3 Q1	na	−4.1	−2.7	−11.3 Feb	+27.4 Jun	+32.2	+30.2	8.1 Q1‡‡
Egypt	+4.3 Q1	na	+4.0	+3.8	+5.7 Q4	+10.0 Jun	+20.2	+9.7	9.4 Q1‡‡
Israel	+0.6 Q1	−3.6	−1.0	+1.6	−9.8 May	+3.6 Jun	+4.8	+2.7	7.6 Q1
Saudi Arabia	+4.2 2008	na	−1.0	+3.1	na	+5.5 May	+10.4	+4.3	na
South Africa	−1.3 Q1	−6.4	−2.2	+3.1	−17.1 May	+8.0 May	+11.7	+6.6	23.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	−15.1 Q1	na	−13.0	−3.0	−30.0 May	−0.9 Jun	+11.4	+0.2	13.9 Apr
Finland	−7.6 Q1	−10.3	−5.6	−0.1	−23.2 May	−0.1 Jun	+4.4	+0.3	8.8 Jun
Iceland	−3.9 Q1	−13.6	−6.5	−0.7	+10.1 2008	+12.2 Jun	+12.7	+12.5	8.7 May‡‡
Ireland	−8.5 Q1	−5.7	−7.5	−2.8	−4.2 May	−5.4 Jun	+5.0	−3.5	11.9 Jun
Latvia	−18.0 Q1	na	−17.0	−4.0	−19.3 May	+3.4 Jun	+17.7	+3.0	16.3 May
Lithuania	−13.6 Q1	−35.8	−15.0	−4.5	−19.3 May	+4.2 Jun	+12.5	+5.5	9.3 Jun‡‡
Luxembourg	−5.2 Q4	−16.8	−5.0	−0.9	−26.7 Mar	−0.3 May	+4.0	+0.5	5.4 May‡‡
New Zealand	−2.2 Q1	−2.7	−2.6	+0.7	−7.2 Q4	+1.9 Q2	+4.0	+1.4	5.0 Q1
Peru	+0.5 May	na	+1.3	+2.6	−13.6 Apr	+3.1 Jun	+5.7	+3.8	8.5 May‡‡
Philippines	+0.4 Q1	−8.9	−1.8	+3.0	−15.5 Apr	+1.5 Jun	+11.4	+2.9	7.5 Q2‡‡
Portugal	−3.7 Q1	−6.2	−4.1	−0.3	−7.9 May	−1.6 Jun	+3.4	−0.7	8.9 Q1‡‡
Slovakia	−5.6 Q1	na	−5.0	+0.7	−23.9 May	+2.4 Jun	+4.6	+1.6	11.8 Jun‡‡
Slovenia	−8.5 Q1	na	−5.0	+0.5	−19.8 May	+0.3 Jun	+7.0	+1.1	8.9 May‡‡
Ukraine	−8.0 Q4	na	−12.0	+1.0	−31.8 May	+15.0 Jun	+29.3	+16.0	2.6 May
Vietnam	+4.5 Q2	na	+2.1	+4.9	+8.2 Jun	+3.9 May	+25.2	+6.0	4.6 2007

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate -1.6 in June. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Jul 23rd 2009
From The Economist print edition

The Economist commodity-price index

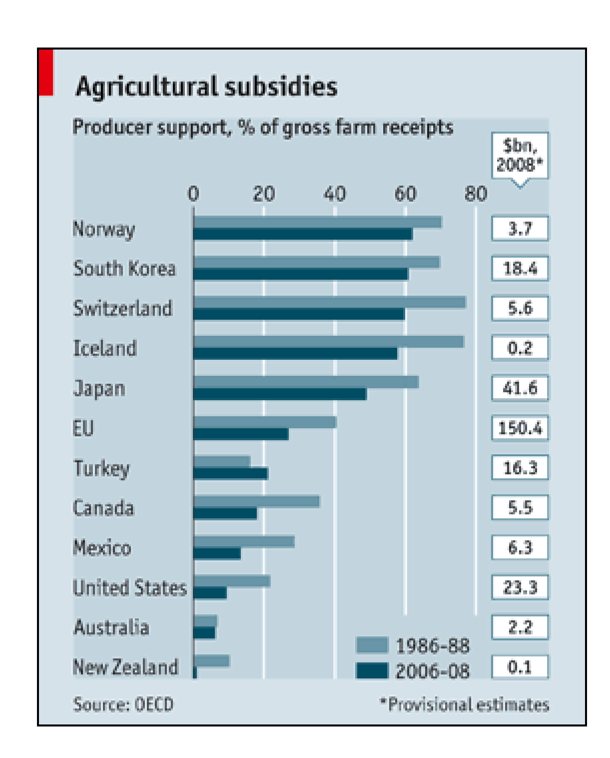
2000=100

	Jul 14th	Jul 21st*	% change on one month	% change on one year
Dollar index				
All items	178.5	183.3	+1.0	-28.2
Food	196.3	196.8	-3.6	-22.8
Industrials				
All	155.5	165.9	+8.8	-35.1
Nfa†	129.9	138.1	+9.4	-31.4
Metals	169.4	181.1	+8.6	-36.6
Sterling index				
All items	166.3	168.9	+0.1	-12.9
Euro index				
All items	118.4	119.2	-0.6	-20.1
Gold				
$ per oz	921.00	949.00	+2.9	-0.9
West Texas Intermediate				
$ per barrel	59.50	64.78	-5.9	-49.2

*Provisional †Non-food agriculturals.

Agricultural subsidies

Jul 23rd 2009
From The Economist print edition



The OECD estimates that its member countries spent $265 billion on farm subsidies in 2008. This was slightly more than a fifth of their farmers' total earnings. Last year's increase in food prices ensured that such payments were at their lowest level since records began in the mid-1980s. But handouts still made up more than three-fifths of farmers' gross incomes in Norway and South Korea between 2006 and 2008. In contrast, they were less than 1% of farm incomes in New Zealand and under 10% in both Australia and America. But the size of America's farm sector meant that it spent $23.3 billion on subsidies last year. The European Union was by far the biggest subsidiser, forking out $150.4 billion.



Trade, exchange rates, budget balances and interest rates

Jul 23rd 2009
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2009†	Currency units, per $ Jul 22nd	Currency units, per $ year ago	Budget balance % of GDP 2009†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−674.4 May	−628.3 Q1	−3.0	–	–	−13.7	0.26	3.55
Japan	+5.1 May	+107.7 May	+1.9	93.7	108	−6.8	0.41	1.38
China	+286.7 Jun	+426.1 Q4	+7.2	6.83	6.83	−4.3	1.59	3.72
Britain	−145.4 May	−52.5 Q1	−1.7	0.61	0.50	−13.9	0.95	3.84
Canada	+21.1 May	−3.9 Q1	−1.8	1.10	1.01	−2.1	0.23	3.45
Euro area	−46.2 May	−146.2 Apr	−1.0	0.70	0.64	−5.9	0.93	3.38
Austria	−5.4 Apr	+15.0 Q4	+2.0	0.70	0.64	−5.2	0.93	3.97
Belgium	+6.0 Apr	−12.0 Mar	−2.4	0.70	0.64	−5.8	0.95	3.88
France	−73.9 May	−59.4 May	−2.2	0.70	0.64	−6.6	0.93	3.64
Germany	+196.3 May	+171.0 May	+3.9	0.70	0.64	−4.7	0.93	3.37
Greece	−56.2 Apr	−45.2 Apr	−8.8	0.70	0.64	−6.5	0.93	4.77
Italy	−11.9 May	−69.6 Apr	−2.8	0.70	0.64	−5.2	0.93	4.30
Netherlands	+44.1 May	+50.0 Q1	+6.1	0.70	0.64	−4.1	0.93	3.74
Spain	−101.4 May	−124.7 Apr	−7.2	0.70	0.64	−9.6	0.93	3.94
Czech Republic	+4.1 May	−6.3 May	−1.9	18.2	15.2	−4.7	2.11	5.69
Denmark	+6.5 May	+8.5 May	+1.5	5.24	4.75	−2.5	2.03	3.71
Hungary	+1.3 May	−11.3 Q1	−2.9	192	149	−3.9	9.48	8.75
Norway	+61.0 Jun	+79.6 Q1	+14.4	6.31	5.15	7.4	1.88	4.07
Poland	−16.2 May	−15.7 May	−5.7	3.00	2.08	−4.0	4.18	6.19
Russia	+132.5 May	+55.3 Q2	+0.9	31.2	23.4	−8.0	11.00	10.95
Sweden	+12.8 May	+31.4 Q1	+7.0	7.61	6.03	−4.7	0.11	3.32
Switzerland	+16.9 Jun	+56.6 Q1	+7.6	1.07	1.04	−3.1	0.36	2.16
Turkey	−51.0 May	−23.8 May	−0.6	1.49	1.20	−5.9	9.17	6.30†
Australia	+6.6 May	−29.8 Q1	−4.1	1.23	1.04	−4.0	3.14	5.57
Hong Kong	−21.7 May	+29.3 Q1	+10.4	7.75	7.80	−4.0	0.26	2.19
India	−96.4 May	−29.8 Q1	−1.9	48.5	42.1	−7.8	3.23	7.53
Indonesia	+10.4 May	−0.8 Q1	+0.9	10,070	9,142	−3.0	7.31	7.14‡
Malaysia	+39.7 May	+40.5 Q1	+13.5	3.55	3.24	−8.0	2.13	2.43‡
Pakistan	−16.8 Jun	−12.2 Q1	−2.1	82.1	70.8	−4.3	11.74	14.16†
Singapore	+17.4 Jun	+23.1 Q1	+14.9	1.44	1.37	−4.1	0.50	2.20
South Korea	+15.2 Jun	+17.2 May	+2.9	1,248	1,014	−5.7	2.41	5.25
Taiwan	+12.8 Jun	+29.2 Q1	+9.6	32.9	30.4	−5.2	0.85	1.37
Thailand	+10.2 Jun	+8.3 May	+5.3	34.0	33.4	−5.6	1.40	3.11
Argentina	+17.1 Jun	+6.8 Q1	+2.0	3.81	3.02	−1.2	14.56	na
Brazil	+27.5 Jun	−20.7 May	−1.3	1.90	1.58	−2.0	9.16	6.16‡
Chile	+4.5 Jun	−4.3 Q1	−0.9	533	494	−4.1	1.08	2.57‡
Colombia	nil Apr	−6.5 Q1	−3.7	1,976	1,769	−3.4	5.11	5.83‡
Mexico	−15.5 May	−14.2 Q1	−2.7	13.2	10.0	−5.4	4.52	7.72
Venezuela	+32.5 Q1	+26.2 Q1	+1.1	6.59	3.34§	−4.7	14.50	6.55‡
Egypt	−26.1 Q1	−2.9 Q1	−1.5	5.57	5.31	−7.1	10.21	2.96†
Israel	−9.2 Jun	+4.1 Q1	+1.7	3.88	3.48	−6.2	0.55	3.98
Saudi Arabia	+197.4 2008	+124.0 2008	−2.1	3.75	3.75	−5.1	0.65	na
South Africa	−5.8 May	−18.7 Q1	−5.8	7.71	7.53	−4.1	7.60	9.00
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−2.5 May	−0.8 May	+0.7	11.0	9.97	−3.7	6.08	na
Finland	+6.7 Apr	+4.2 May	+0.8	0.70	0.64	−2.6	0.91	3.72
Iceland	+0.3 Jun	−6.1 Q1	+2.2	126	79.4	−13.0	8.00	na
Ireland	+47.6 Apr	−11.3 Q1	−2.2	0.70	0.64	−12.6	0.93	5.19
Latvia	−4.3 May	−1.7 May	−2.0	0.49	0.45	−11.0	13.55	na
Lithuania	−4.3 May	−2.2 May	−2.0	2.43	2.20	−6.1	8.38	na
Luxembourg	−7.3 Apr	+2.2 Q1	na	0.70	0.64	−3.8	0.93	na
New Zealand	−2.2 May	−11.8 Q1	−7.1	1.52	1.33	−6.7	3.75	5.80
Peru	+1.9 May	−3.8 Q1	−2.4	3.00	2.84	−2.3	2.01	na
Philippines	−6.9 May	+5.1 Mar	+3.8	48.2	44.0	−3.4	4.19	na
Portugal	−30.7 Apr	−24.5 May	−9.9	0.70	0.64	−6.0	0.93	4.16
Slovakia	−0.3 May	−5.7 Apr	−7.0	21.2	19.4	−5.5	1.35	4.35
Slovenia	−3.4 May	−2.1 Apr	−1.7	0.70	0.64	−5.1	0.93	na
Ukraine	−13.4 Q1	−10.1 Q1	−0.3	7.66	4.61	−4.3	11.48	na
Vietnam	−5.0 Jun	−7.0 2007	−10.2	17,809	16,725	−8.8	8.04	6.87

*Merchandise trade only. †The Economist poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.



Markets

Jul 23rd 2009
From The Economist print edition

Markets

	Index Jul 22nd	% change on one week	% change on Dec 31st 2008 in local currency	% change on Dec 31st 2008 in $ terms
United States (DJIA)	8,881.3	+3.1	+1.2	+1.2
United States (S&P 500)	954.1	+2.3	+5.6	+5.6
United States (NAScomp)	1,926.4	+3.4	+22.2	+22.2
Japan (Nikkei 225)	9,723.2	+4.9	+9.7	+6.2
Japan (Topix)	906.6	+4.6	+5.5	+2.1
China (SSEA)	3,460.7	+3.4	+81.0	+80.8
China (SSEB, $ terms)	210.4	+3.5	+89.9	+89.7
Britain (FTSE 100)	4,493.7	+3.4	+1.3	+15.8
Canada (S&P TSX)	10,432.4	+2.1	+16.1	+30.3
Euro area (FTSE Euro 100)	780.3	+3.3	+4.6	+6.9
Euro area (DJ STOXX 50)	2,528.8	+3.2	+3.3	+5.6
Austria (ATX)	2,130.5	+1.8	+21.7	+24.4
Belgium (Bel 20)	2,125.7	+2.1	+11.4	+13.8
France (CAC 40)	3,305.1	+4.2	+2.7	+5.0
Germany (DAX)*	5,121.6	+3.9	+6.5	+8.8
Greece (Athex Comp)	2,270.9	+3.9	+27.1	+29.9
Italy (S&P/MIB)	19,925.7	+4.2	+2.4	+4.7
Netherlands (AEX)	271.2	+4.0	+10.3	+12.7
Spain (Madrid SE)	1,054.2	+2.4	+8.0	+10.4
Czech Republic (PX)	955.0	+0.6	+11.3	+18.4
Denmark (OMXCB)	281.8	+4.4	+24.6	+27.3
Hungary (BUX)	16,091.2	+0.9	+31.4	+31.3
Norway (OSEAX)	342.9	+3.8	+26.9	+40.7
Poland (WIG)	32,829.5	+3.6	+20.6	+19.2
Russia (RTS, $ terms)	963.1	+8.5	+55.7	+52.4
Sweden (OMXS30)†	852.9	+3.9	+28.8	+33.9
Switzerland (SMI)	5,637.0	+3.0	+1.9	+1.6
Turkey (ISE)	38,189.1	+0.7	+42.2	+46.8
Australia (All Ord.)	4,068.9	+3.9	+11.2	+28.6
Hong Kong (Hang Seng)	19,248.2	+5.4	+33.8	+33.8
India (BSE)	14,843.1	+4.1	+53.9	+54.5
Indonesia (JSX)	2,125.6	+0.1	+56.8	+69.8
Malaysia (KLSE)	1,148.7	+4.7	+31.0	+27.6
Pakistan (KSE)	7,802.8	+1.5	+33.0	+28.3
Singapore (STI)	2,450.8	+2.6	+39.1	+38.8
South Korea (KOSPI)	1,494.0	+5.2	+32.9	+34.1
Taiwan (TWI)	6,985.3	+3.7	+52.1	+51.9
Thailand (SET)	598.2	+1.8	+32.9	+36.0
Argentina (MERV)	1,642.5	+2.4	+52.1	+38.0
Brazil (BVSP)	53,072.0	+3.5	+41.3	+73.2
Chile (IGPA)	15,298.6	+0.5	+35.1	+61.4
Colombia (IGBC)	10,014.0	+2.7	+32.4	+50.7
Mexico (IPC)	26,288.2	+3.8	+17.5	+23.1
Venezuela (IBC)	45,752.3	+0.7	+30.4	+40.4
Egypt (Case 30)	5,947.9	+8.8	+29.4	+28.1
Israel (TA-100)	840.7	+3.5	+49.0	+45.0
Saudi Arabia (Tadawul)	5,670.5	+0.7	+18.1	+18.2
South Africa (JSE AS)	23,607.8	+0.2	+9.8	+31.6
Europe (FTSEurofirst 300)	890.1	+3.1	+7.0	+9.3
World, dev'd (MSCI)	1,005.3	+3.4	+9.2	+9.2
Emerging markets (MSCI)	806.6	+5.3	+42.2	+42.2
World, all (MSCI)	255.9	+3.6	+12.4	+12.4
World bonds (Citigroup)	811.4	+0.5	+0.2	+0.2
EMBI+ (JPMorgan)	448.7	+1.2	+14.6	+14.6
Hedge funds (HFRX)§	1,082.7	+0.5	+6.1	+6.1
Volatility, US (VIX)	23.5	25.9	40.0	(levels)
CDSs, Eur (iTRAXX)‡	118.5	-8.9	-41.4	-40.1
CDSs, N Am (CDX)‡	180.1	-6.2	-22.8	-22.8
Carbon trading (EU ETS) €	14.4	-0.8	-10.7	-8.8

*Total return index. †New series. ‡Credit-default swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. §Jul 21th

Stockmarket listings

Jul 23rd 2009
From The Economist print edition



Just over 49,000 domestic companies were listed on the world's stockmarkets in 2008, according to Standard & Poor's, a rating agency. Of these, 54% were listed in rich countries. The number of companies in China and Taiwan more than doubled to 2,860 in the ten years to 2008. Corporate listings bear little relation to economic size, however. In 2008 India had 4,921 listed companies, second only to the United States (not shown), which had 5,603. Swiss markets listed only 253 firms, but their total value was more than that of India's. Although Russia had only 314 listed firms, their average market value was $4.2 billion, the highest of any country. Hong Kong had the most listed companies per head in 2008.